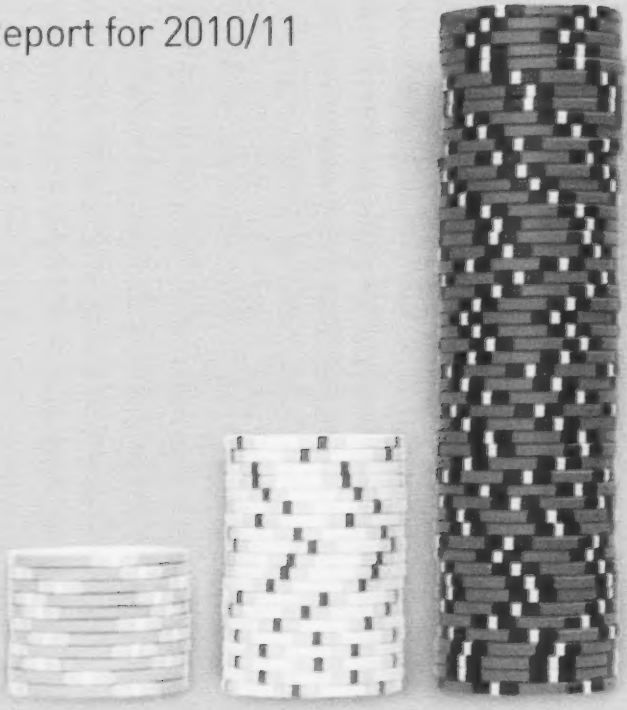
THE EXTRA MILE

Annual Report for 2010/11



Manitoba Lotteries

ABOUT **MANITOBA LOTTERIES**

Who we are

Manitoba Lotteries, with offices in Winnipeg, Morris and Brandon, is a Crown corporation of the Province of Manitoba responsible for the conduct and management of gaming in the province, with the exception of licensed charitable gaming. We report to the Minister responsible for *The Manitoba Lotteries Corporation Act* through our Board of Directors.

What we do

Manitoba Lotteries owns and operates Club Regent Casino and McPhillips Station Casino in Winnipeg, as well as Manitoba's Video Lottery Terminal network from offices in Morris. We are the exclusive supplier of breakopen tickets and bingo paper in the province and distribute and sell tickets for lotteries operated by the Western Canada Lottery Corporation and the Interprovincial Lottery Corporation. To accomplish this, we have formed successful partnerships with the lottery retail industry, the hospitality industry, Veterans' organizations and First Nations communities throughout Manitoba.

THE EXTRA MILE – it is the expression that sums up our attitude toward each and every aspect of our business. It is the additional time and effort we take to get things right. The new technologies we implement. The innovation we constantly strive for and the service and support we provide to communities. From our exceptional customer service programs to our social responsibility commitment, let us show you how Manitoba Lotteries goes the extra mile – and then a little bit further.

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LETTER OF TRANSMITTAL

HONOURABLE STEVE ASHTON

Minister responsible for Lotteries
Room 203, Legislative Building
450 Broadway
Winnipeg, MB R3C 0V8

September 23, 2011

Dear Honourable Minister:

I have the honour to present you with the annual report of the Manitoba Lotteries Corporation for the fiscal year ended March 31, 2011.

Respectfully submitted,

(originally signed by)

Tim Valgardson
Chair, Board of Directors

100%

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WHERE THE **MONEY GOES**

For the year ended March 31, 2011

$332.1 Public Benefits (Net Income)

$256.1 Other Cost of Sales & Expenses

$121.7 Contributions Paid to Siteholders

$ 91.2 Salaries and Benefits

$ 5.8 Supporting Our Communities

$ 4.2 Responsible Gaming Initiatives

$811.1 MILLION Total Revenue

As Manitobans, we all benefit through the many ways Manitoba Lotteries' income is reinvested into our province. Total revenue reached **$811.1** million in 2010/11, with net income of **$332.1** million.

$259.9 Education, Health & Other Government Programs

Allocated to priority provincial government programs that provide health care, education, community and social services and economic development

$ 47.3 Community Development

Dedicated to community economic development projects through the Rural Economic Development Initiative (REDI) and the Urban Development Initiatives (UDI)

$ 16.5 Municipalities

Paid as unconditional grants to support Manitoba's municipalities

$ 8.4 Winnipeg Police Service

Allocated to the City of Winnipeg Police Service

A MESSAGE FROM **OUR CHAIR**

It has been said that the extra mile is never crowded as few are willing to go the distance. Knowing this, it is especially gratifying to be in my tenth year as Chair of Manitoba Lotteries and to be able to look back on our concerted efforts to try harder, reach farther, dream bigger – all for the purpose of going the extra mile for our customers, stakeholders and all Manitobans.

Over the past decade, we have shown unwavering commitment to our corporate mission, maintaining a consistent focus on the corporate framework that drives decision making at the Board level as well as on the core values of integrity, social responsibility, innovation, learning, leadership and diversity that continue to guide our organization. It has been my honour to support our team.

This year, we continued to develop our long-term Corporate Social Responsibility (CSR) approach by facilitating community dialogue, and can report that the second phase of stakeholder research has been successfully completed. This involved consulting with employees and business partners and evaluating their feedback. The results will be compiled in early 2011/12 and added to what was learned in phase one when we spoke with customers, non-customers, advocacy groups and partners.

Our ongoing commitment and focus on responsible gaming has seen us make progress in collaboration with other jurisdictions. Specifically, we have advanced responsible gaming in the areas of research and evaluation, employee training, player awareness and overall program development.

We continue to emphasize the need for sustainable development and our responsibility to reduce our environmental footprint. In 2010, we joined an alliance of provincial partners in support of Lake Friendly, an organization dedicated to protecting Manitoba's waterways, including Lake Winnipeg. In a demonstration of the simple measures each of us can take to do our part, the corporation has committed to Lake Friendly cleaning products.

Manitoba Lotteries has long held high its banner of community pride, supporting the events, activities and organizations that enrich all our lives. We build long-term relationships with our community partners, such as our twelve years with the Manitoba Marathon, including nine as presenting sponsor of the full marathon.

This spirit of community is rooted in our employees who have earned the Outstanding Achievement Award from the province's All Charities Campaign, pledging over $107,000 in workplace contributions to local charities. They were equally generous with their gifts of time, with employees and their families donating over 7,000 volunteer hours this year alone. We are continually inspired by the big-heartedness of our people, a reflection of Manitoba Lotteries' spirit and commitment to supporting our communities.

On behalf of the Board, I wish to extend thanks to our hardworking Executive Management team and staff for their valuable role in achieving a successful year. Your admirable dedication and enthusiasm help make Manitoba Lotteries an organization that is always striving to go the extra mile – and that is something of which we can all be proud.

(originally signed by)

Tim Valgardson
Chair, Board of Directors

A MESSAGE FROM **OUR PRESIDENT & CEO**

Milestones serve to mark a journey of progress, and it is with this in mind that I would like to extend my congratulations to Chair Tim Valgardson and Manitoba Lotteries' Board of Directors on reaching the milestone of ten remarkable years. Their innovation and leadership have defined what it means to go the extra mile, inspiring our organization to follow in their example.

The Board's guidance and strategic oversight to management have been momentous in ensuring another successful fiscal year, with Manitoba Lotteries reporting a net income of $332.1 million for 2010/11. This revenue benefits all Manitobans as we reinvest in government programs, providing education, health care, community and social services, as well as in urban and rural economic development.

Fostering a culture of continuous improvement has led to significant cost-savings this fiscal period. We achieved greater efficiency through careful expenditure management, such as better balancing the amount of work we outsourced and by investing in energy-efficient technology, equipment and processes. One such project was the recent construction of a new centralized surveillance room. In addition to ensuring greater security and fraud prevention, surveillance is an important component of the exceptional customer service we provide to the public visiting our casinos. This state-of-the-art facility, built using repurposed materials, may generate future revenue through potential outside surveillance contracts with various organizations.

In addition to demonstrating continued fiscal accountability, we have consistently made our people practices an organizational priority. This has once again given us the honour of being named one of the Top 25 Employers in Manitoba in 2010, helped secure our second consecutive placing among Canada's Best Diversity Employers and scored a new ranking for us on the national list of Top Employers for New Canadians.

There is always further a company can go in achieving customer service excellence. This year, we enhanced our Casino Service Standards Program to further employee skill sets to excel in the delivery of four vital service standards: friendly and prompt service; responsible gaming; a fun and exciting customer experience; and fair and sensitive conflict resolution. This program not only ensures our people are able to acquire the necessary skills to be highly productive but that superior standards for customer service are adapted and ingrained into our corporate culture.

We have also covered new ground in offering quality products to our customers. This year saw the launch of Pools & Props within the Sport Select lottery brand. Guests at Winnipeg's casinos are enjoying several refreshed areas. And, as you will read throughout this report, many more changes are underway to continue to deliver the level of product excellence that our customers expect and deserve.

My sincere thanks goes out to our 1,900 employees, who, in addition to embodying our values, make a difference and move others to action with their involvement, support and leadership. A recent example of this was our casino staff's life-saving usage of Automated External Defibrillators, earning recognition from the Heart and Stroke Foundation of Manitoba. Such events at Manitoba Lotteries serve as signposts that prove that the road to success is only achieved when we all commit to going the extra mile.

(originally signed by)

Winston Hodgins
President & CEO

CORPORATE FRAMEWORK

OUR VISION is to be recognized as an enterprising and progressive business inspired to be the best at understanding and exceeding your entertainment expectations.

OUR MISSION is to create an exciting entertainment experience in a socially responsible manner to generate benefits for all Manitobans.

OUR CORE VALUES

Integrity – We are fair, honest, respectful, transparent and trustworthy.

Social Responsibility – We are committed to business, social, responsible gaming and environmental practices which are sustainable and add lasting value to our communities.

Innovation – We embrace change and encourage innovation. We seek out and pursue opportunities that contribute to personal and business growth.

Learning Focused – We learn from our experiences, and acquire knowledge and talent to continually progress.

Leadership – We are committed to excellence in everything we do and are dedicated to achieving results that exceed expectations.

Diversity – We value the skills, strengths and perspectives of our team members, providing an environment where all individuals can develop and perform to their full potential.

OUR **EXECUTIVE MANAGEMENT TEAM**

(BELOW, FROM FAR LEFT TO RIGHT)

WINSTON HODGINS President & CEO
SUSAN OLYNIK Vice President, Corporate Communications & Social Responsibility
WAYNE PERFUMO Vice President, Entertainment & Hospitality, Corporate Security
MARILYN ROBINSON Vice President, Corporate Marketing & People Services
DAN SANSCARTIER Vice President, Gaming Operations
TRACY GRAHAM Executive Vice President, Finance & Chief Financial Officer
PETER HAK Executive Vice President, Corporate Services
WALTER NYKOLYSZYN Executive Director, Internal Audit & Corporate Compliance
LARRY WANDOWICH Executive General Manager, Business Improvement

CORPORATE GOVERNANCE

Corporate Governance guides the long-term goals and strategic plans of Manitoba Lotteries and sets out the practices and guiding principles to help us make decisions. Our corporate governance model outlines the authority and accountability among the different levels of Manitoba Lotteries, particularly at the Government, Board and Executive Management levels.

The Board sets corporate policy for the corporation and provides strategic direction to the CEO and senior executives, who are responsible for our business operations.

The function of the Board is assisted by the work of the following committees:

- Planning and Policy
- Finance and Operations
- Audit and Risk Management
- Human Resources and Compensation
- First Nations Gaming
- Corporate Governance
- Business Development

These corporate governance policies and terms articulate corporate roles and responsibilities:

- Corporate Governance
- Board/Executive Management Relationship
- CEO Responsibility
- Corporate Strategic Planning
- Corporate Performance Management
- Internal Audit
- Conflict of Interest
- Board of Directors and CEO Expenses
- Risk Management
- Corporate Social Responsibility
- Business Plan and Budget Approval

Whistleblower Report

In response to the enactment of *The Public Interest Disclosure (Whistleblower Protection) Act* on September 26, 2007, Manitoba Lotteries implemented the Whistleblower Protection Policy and put into place a process through which employees can report serious and significant wrongdoings observed in the workplace without fear of reprisal.

Since the implementation of the Whistleblower Protection Policy and the related disclosure process in September 2007, no disclosures have been received from Manitoba Lotteries employees, no investigations were started and no general inquiries were received.

OUR **BOARD OF DIRECTORS**

(BELOW, FROM FAR LEFT TO RIGHT)

TIM VALGARDSON Chair, Winnipeg
KAREN BOTTING Vice Chair, Winnipeg
NICOLE CAMPBELL Portage la Prairie
JEAN-PAUL GOBEIL Winnipeg
WILLIAM CRAWFORD Winnipeg
GERALD KOLESAR Winnipeg
WALTER KOLISNYK Minitonas
BEV ROMANIK Brandon
GERALD ROSENBY Winnipeg
LISA SETTEE Winnipeg
CAROLYN WRAY Winnipeg

WE HAD A SUCCESSFUL YEAR IN 2010/11 – COMPLETING A NUMBER OF KEY ACCOMPLISHMENTS AND MEETING OR EXCEEDING MOST OF OUR TARGETS.

Goal	Objective	Performance Indicator	2009/10	2010/11	2011/12 Target
QUALITY PRODUCTS: A satisfied customer See page 18 for more on Quality Products	Increase revenues	Revenue (millions)	$767.6	$811.1	$834.2
	Increase overall customer satisfaction rating	Casino customer satisfaction	75%	70%	85%
RESPONSIBILITY TO COMMUNITY: Be recognized as a valued member of the community See page 22 for more on Responsibility to Community	Increase public awareness of Manitoba Lotteries' Corporate Social Responsibility	Public awareness of Manitoba Lotteries sponsored events, programs and charities *	15%	22%	To be determined during next planning cycle
	Improve public perception of Manitoba Lotteries as a responsible member of the community	Percent of public who report a favourable impression of Manitoba Lotteries **	48%	52%	56%
OPERATIONAL EXCELLENCE: Be efficient and effective See page 30 for more on Operational Excellence	Contain operating expenses	Operating expenses as a percentage of revenue	17.6%	17.4%	18% - 19%
	Contain operating expenses	Net income (millions)	$306.7	$332.1	$348.3

STRATEGIC PLANNING is how we determine the steps needed to move toward our goals as they relate to our five key strategic areas. Divisional strategy maps help illustrate the alignment of division level and department level activities, while supporting the corporation's goals and priorities. This tool helps show employees how their roles link directly to what Manitoba Lotteries is striving to achieve. Our three-year Strategic Plan culminates in 2011/12.

Explanation

Calculation and Data Source Total revenues from all product segments.

Calculation and Data Source The Casino Customer Satisfaction Study is conducted on a quarterly basis at each casino. Respondents are requested to rate products and services on a seven-point scale.

Calculation and Data Source The Corporate Image Study conducted quarterly indicates public awareness and recall of events, programs and charities that are sponsored by Manitoba Lotteries. Results identify ability to recall these activities within a three month period.

Calculation and Data Source The Corporate Image Study identifies respondents' impressions of Manitoba Lotteries using a five-point scale.

Calculation and Data Source $\frac{\text{Operating expenses}}{\text{Revenue}}$ ***

Calculation and Data Source Revenue – cost of sales - expenses – allocations and payments = net income

* Survey instrument was modified 2009/10. ** Survey instrument was modified 2010/11 to be consistent with other jurisdictions. *** Including salaries and benefits.

STRATEGIC PLANNING & KEY PERFORMANCE INDICATORS 2009/10 - 2011/12

Goal	Objective	Performance Indicator	2009/10	2010/11	2011/12 Target
NEW BUSINESS DEVELOPMENT: Retain and grow our customer base See page 34 for more on New Business Development	Increase participation in Manitoba Lotteries' products and services	Number of active Club Card members	117,741	115,131	130,000
	Increase participation in Manitoba Lotteries' products and services	Percent of public who are Manitoba Lotteries customers	55%	56%	59%
	Increase attendance at the Casinos of Winnipeg	Percent of out-of-town visitors	20.6%	17%	22%
PEOPLE AND SERVICES: Develop a knowledgeable workforce of highly satisfied employees See page 26 for more on People and Services	Increase employee engagement	Employee engagement	72% 2008 survey	74% 2010 survey	75%

EQUITY PARTICIPATION RATES

Other	55.6%
Visible Minority	31.7%
Aboriginal	10.8%
Disabled	1.9%

GENDER COMPARISON

Women	50.4%
Men	49.6%

Explanation

Calculation and Data Source Active Club Card members are defined as the number of participants using their Club Cards throughout the casino. Cards with no recorded activity for an 18 month period are reclassified as inactive.

Calculation and Data Source Through the Gaming Market Tracking Study, respondents indicate their use of Manitoba Lotteries products and services within a selected four week period.

Calculation and Data Source The Customer Satisfaction Study identifies the number of casino visitors from outside of the city limits.

Calculation and Data Source The Employee Excellence survey measures employee satisfaction with employment, desire to provide discretionary effort and pride in the organization. The survey is conducted every two years.

AWARDS AND RANKINGS

- Top 100 Company in Manitoba (2008-2010)
- Top 25 Employer in Manitoba (2007-2011)
- Top 45 Best Diversity Employers, out of 2,700 organizations in Canada (2010-2011)
- Top 40 Employers for new Canadians, out of over 2,700 organizations in Canada (2011)
- Distinguished Budget Recognition from the Government Finance Officers Association (2005-2011)
- Carbon neutral organization (2005-2010)
- Tourism Manitoba Partnership Award (2010)
- Human Resource Management Association of Manitoba Organization Award (2003-2009)
- Top 20 Most Innovative Gaming Technology Products for combination bingo/slot machine (2008)
- Manitoba Chambers of Commerce Lieutenant Governor's Award for Outstanding Contribution to the Community (2006)
- Dimensions in Leadership program receives Corporate University Best in Class Award (2005)
- Health and Safety Awards

QUALITY PRODUCTS

SPORT SELECT
Western Canada Lottery
Get Your Validation Slip • Sign It • Check Your Numbers • Get Your Validation Slip • It's Your Ticket • It's Your Ticket
McPhillips Station CASINO

WE GO THE EXTRA MILE TO:

CREATE SATISFIED CUSTOMERS.

A NEW PLAYER SLIDES INTO A SEAT at the poker table, sized up by another sorting his chips. It's on. Outside the coolly inviting poker room, hockey fans brace in front of Upperdeck Sports Bar's big screen, roaring as the puck hits the back of the net. There is still plenty of time left in the third period, and anything can happen, here or at the poker table. When it comes to excitement, this is the real deal.

We constantly aim to deliver a superior gaming and entertainment experience to all our customers. To ensure our quality product and service offerings continue to not only meet customer needs but exceed their expectations, Manitoba Lotteries regularly conducts in-depth customer service research and uses this data to gain valuable feedback, measure our success and plan for future enhancements.

Gaming & Facility Enhancements

We work closely with our suppliers to source and acquire the most innovative, fun and exciting games for the Manitoba market. All of the games we bring to Manitoba must also meet the province's stringent regulatory requirements that assure game integrity for the protection of our players.

This year, we expanded our lottery offerings with the launch of Pools & Props under the popular Sport Select brand, joining such established player favourites as Pro-Line and Over/Under. We are also pleased to note that Canada's newest lottery game, Lotto Max, has continued its popularity in its second year thanks to the excitement generated by minimum $10 million jackpots and additional Maxmillions prize draws.

To the benefit and delight of our casino guests, we introduced an array of exciting changes on the gaming floors of Winnipeg's casinos, from enhancing our table games to refreshing our electronic gaming devices. In order to offer a greater variety of entertainment options inside our ever-evolving environment, we brought in two new slots games on all of our electronic bingo devices. We also upgraded 23% of the electronic gaming floor with new machines, and an additional 11% through game theme conversions. At the same time, we upgraded our custom tournament-style play slot machines with a fresh new look.

Patrons of McPhillips Station Casino have enjoyed several gaming enhancements, including a new premium Baccarat game with the more recent addition of a side wager, as well as the further development of our Upperdeck Sports Bar. Complementing Upperdeck's lively atmosphere of pay-per-view events, live and broadcast sporting entertainment, games and tournaments, is a brand new poker room offering a relaxed Sit 'n' Go poker option. Elsewhere in the casino, players can join in a game of Four Card Poker, while others may wish to give the new Electronic Roulette games a spin.

Food and Beverage

The growing popularity of Upperdeck led to our decision to build a dedicated kitchen for the sports bar. The new amenity expands the dining experience to full-service hot entrées, while creating more efficiency for staff in the kitchen, enabling food to be served faster and with less waste.

As buffets remain a deliciously popular draw at Club Regent Casino and McPhillips Station Casino, we have expanded our buffet selection to include a soft ice-cream station and self-serve soup bar. There are now themed menus on select days, as well as made-in-Manitoba buffets featuring regional ingredients from local suppliers, who are on hand to answer questions about their products.

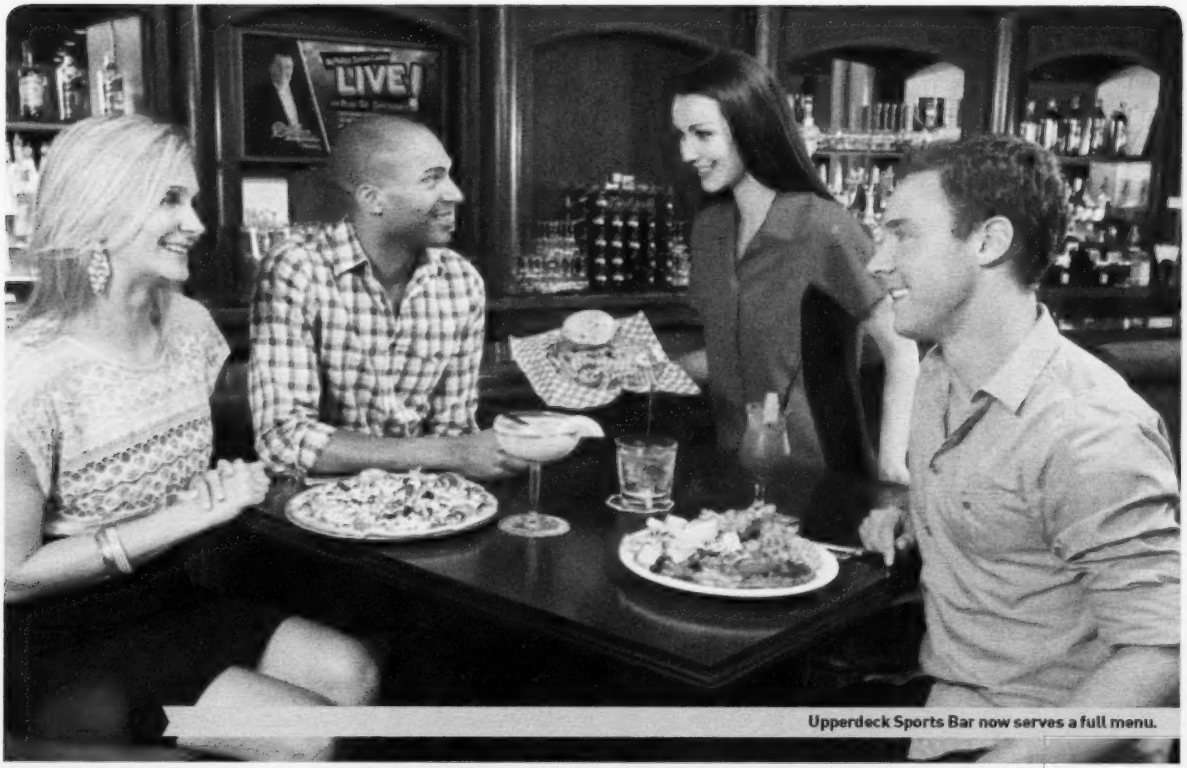
Winnipeg's casinos continue to play host to an exciting lineup of local and internationally-renowned visiting performers every year. Guests attending concerts can now take advantage of basic bar service, ensuring faster delivery of beverages before and during the show.

The Mile Ahead

Customer satisfaction surveys and collected feedback inspire Manitoba Lotteries to continually find new ways to enhance and refresh our lottery and video lottery terminal (VLT) products, our casino attractions and our gaming technology in order to improve the overall customer experience today and in the future.

Among the planned developments for the upcoming year are two major poker tournaments, one in the spring and one in the fall. As the province's first major Texas Hold'Em tournament, our spring event is expected to draw hundreds of hopeful Manitoba players to the tables as well as attract competitors from outside the province to McPhillips Station Casino.

Manitoba's current VLTs, which are at the end of their lifespan, are slated to be replaced in 2012.

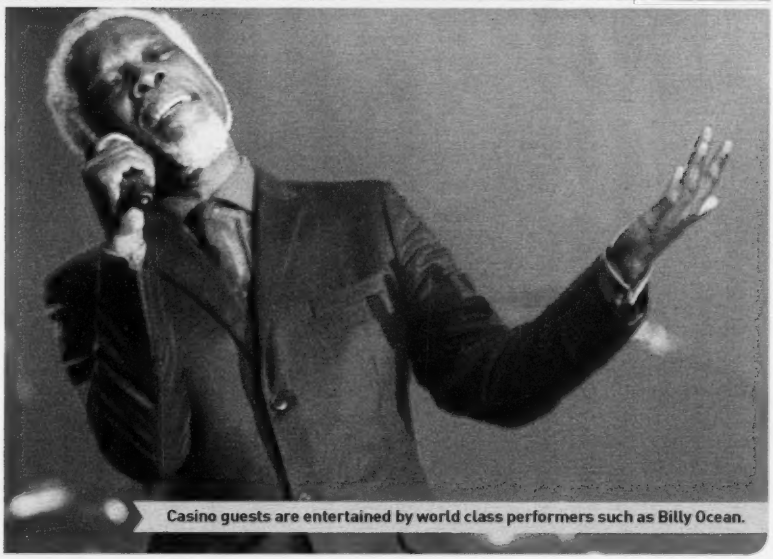


Upperdeck Sports Bar now serves a full menu.

Manitoba Lotteries
POKER
CHAMPIONSHIP

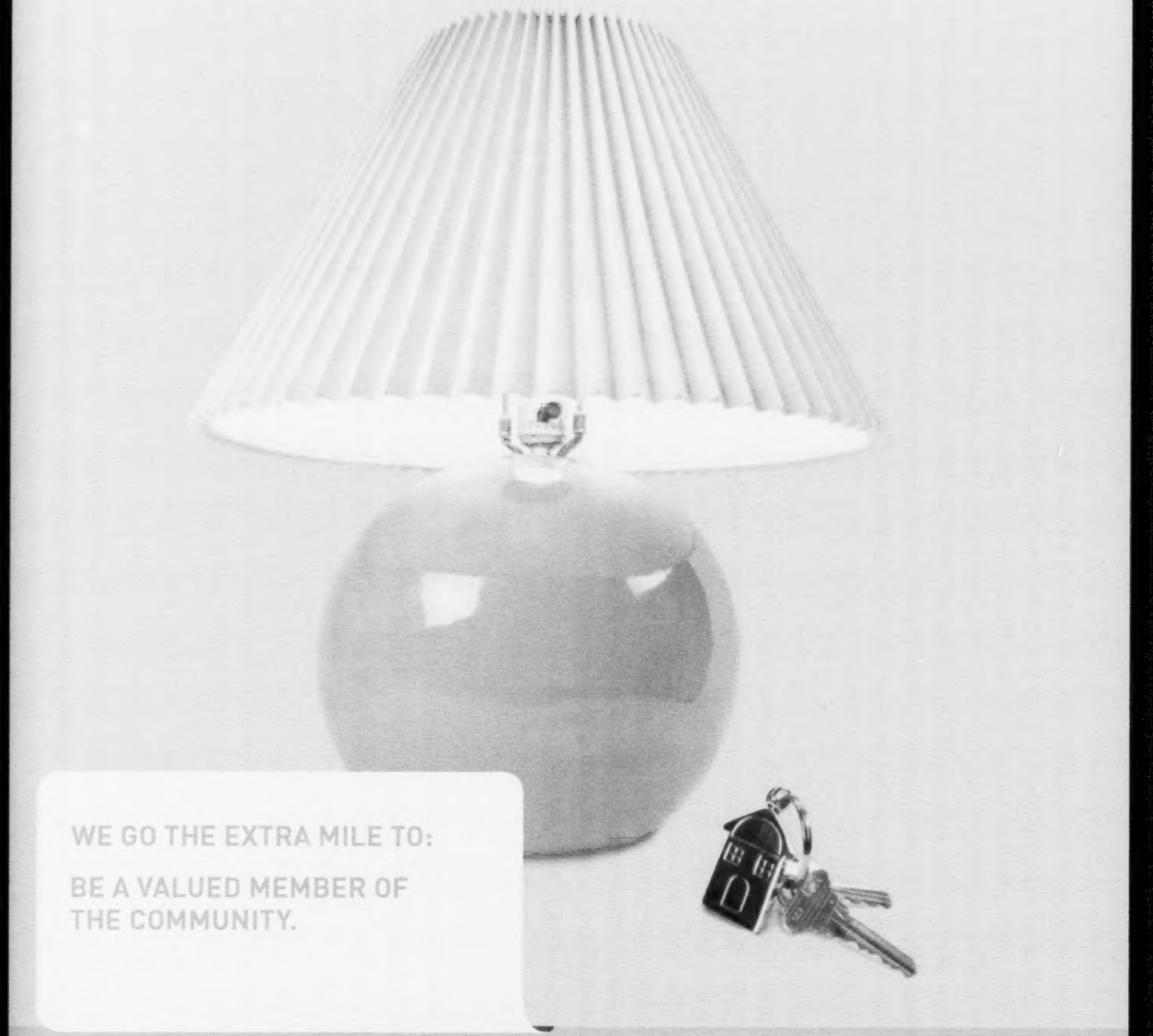
Manitoba Lotteries
POKER
OPEN

Two major poker tournaments are planned for next year – the first of their kind in Manitoba.



Casino guests are entertained by world class performers such as Billy Ocean.

RESPONSIBILITY TO COMMUNITY



WE GO THE EXTRA MILE TO:

BE A VALUED MEMBER OF THE COMMUNITY.

TO MOST PEOPLE, IT IS JUST A LAMP.

But through a young mother's eyes, it is hope. Before redevelopment of land next to McPhillips Station Casino began, over two semi-trailers of former hotel furnishings were donated to community organizations. New life was given to these household goods while benefiting those most in need. Even something as simple as a recycled lamp can light the way to a better future.

The exceptional pride we have in being part of this community continues to shine through our corporate leadership, financial support and volunteerism programs. Our contribution to enriching the lives of Manitobans extends to being a socially and environmentally responsible organization that is aware of our impacts on the community.

We are continuing to develop our long-term Corporate Social Responsibility (CSR) approach by facilitating community dialogue and can report that the second phase of stakeholder research has been successfully completed. This involved consulting with employees and business partners and evaluating their feedback. The results will be compiled in early 2011/12 and added to what was learned in phase one when we spoke with customers, non-customers, advocacy groups and partners.

Community Support

Manitoba Lotteries believes in taking a long-term, sustainable approach to creating meaningful relationships with community organizations. In our experience, the most effective partnerships are those that demonstrate a real understanding of an organization's work and its role in the community.

Our long-time relationship with Folklorama continued as Title Sponsor of the Kick-Off Event as well as the Official Sponsor of the newly created Folklorama Pavilion Volunteer Program. We continue to build with Habitat for Humanity through the Manitoba Lotteries Habitat for Humanity Legacy Build Program, now into its third year. The program has supported the completion of over 30 homes since 2008. We are proud to work shoulder to shoulder with Habitat as it builds its one-hundredth home – a Legacy Build – in 2011.

Other notable events over the year include the 2010 MasterCard Memorial Cup in Brandon, of which we were Platinum Sponsor, as well as our involvement with the 2010 CN Canadian Women's Open in August. In the fall we were the Official Volunteer Sponsor of Centrallia, a global business-to-business forum put on by Manitoba's bilingual trade agency ANIM.

Started in 2009, Manitoba Lotteries Community Support Festival Program has expanded to support a total of 17 rural or smaller Winnipeg festivals, fairs or rodeos. The program unifies and celebrates the efforts of hard-working volunteers across Manitoba.

Our community benefited from our purchase of the former hotel next to McPhillips Station Casino. Before demolition, over 2,500 household items were distributed to six non-profit groups through our Asset Donation Program, while the building itself was used as an emergency training facility by the RCMP, Winnipeg Police Service and the Office of the Fire Commissioner.

Our community spirit and volunteer levels continue to grow through the unwavering generosity of our outstanding employees. In 2010, they raised $100,000 for their third employee Charity of Choice campaign, aiding in the purchase of equipment for special needs kids through the Children's Rehabilitation Foundation.

Responsible Gaming

We continue our strong commitment to and involvement in national collaborative efforts that focus on responsible gaming, including contributing our expertise to the Interprovincial Lottery Corporation's responsible gaming sub-committee. Along with other gaming jurisdictions across Canada, we have made progress on a multi-year strategy to raise the bar of responsible gaming research and evaluation; training; program development and communication with players and the public. This places Canada in the global forefront of best practices for responsible gaming.

Within Manitoba, we continue to fund the important problem gambling prevention and treatment services provided by the Addictions Foundation of Manitoba (AFM). An evaluation of the AFM's Problem Gambling Helpline has demonstrated positive results and highlights the positive impacts that this key service has made in the lives of those who have called. A portion of the support this year funded an awareness program at post-secondary schools called "You Don't Know Jack".

We continue to participate in the Manitoba Longitudinal Study of Young Adults, a partnership research project with the Manitoba Gaming Control Commission and the AFM. Now in the final cycle of data collection, the project will be completed in 2012.

Sustainable Development

Our carbon-neutral status continued into its sixth year as we planted over 20,000 trees in Manitoba. Winnipeg's casinos maintained their BOMA BESt certification. We also joined five provincial partners in support of the Lake Friendly initiative, dedicated to the protection of Lake Winnipeg.
Our commitment to using Lake Friendly certified,

environmentally-friendly cleaning products is a natural extension of our existing pledge to using green products.

Manitoba Lotteries continues to develop an Environmental Management System (EMS) to the ISO 14001 standard. The EMS will allow us to present auditable results of environmental benchmarks in such areas as purchasing, construction, house and grounds, and fleet vehicles. This year, in support of the EMS, sustainable education sessions have been standardized into our orientation program for new employees.

Also this year, we have developed sustainability objectives to guide construction projects and ensure they are in keeping with the intent of the Manitoba Green Building Policy.

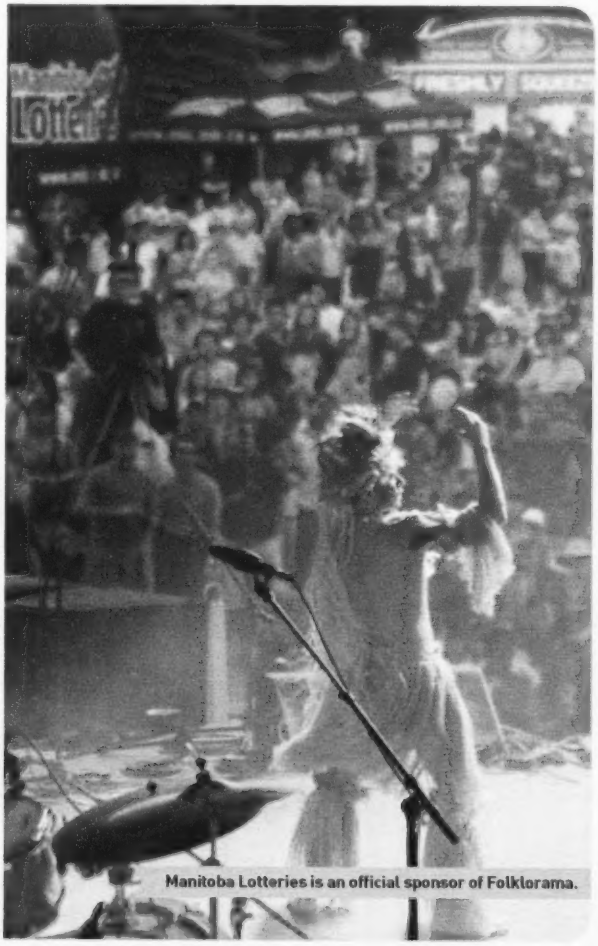
The Mile Ahead

Our casino Responsible Gaming Information Centres will showcase a new touch-screen slot machine with integrated video programming that helps players understand how gaming works and addresses common gambling myths. In addition, we will make funding available to gambling-related research as part of the Manitoba Gambling Research Program.

We have entered into a three-year agreement with the International Institute for Sustainable Development. This partnership is fostering the development of what could be the province's first certified carbon offset, through a pilot project at Lake Winnipeg's Netley-Libau Marsh.

Our evolving CSR strategy will continue to progress. The next step will be engaging additional stakeholders to help us further define and understand all stakeholder perspectives.

Manitoba Lotteries sponsored Ride for Dad, which raised money for prostate cancer research and awareness.



Manitoba Lotteries is an official sponsor of Folklorama.

WE GO THE EXTRA MILE TO:

DEVELOP A KNOWLEDGEABLE WORKFORCE OF HIGHLY SATISFIED EMPLOYEES.

SINCE ARRIVING FROM VIETNAM, Hien's career at Manitoba Lotteries has helped open doors for his family's future. He has found support for special training, advancement opportunities and a defined career path. Working here also presents Hien with a way to give back to the community he now calls home – by volunteering to build Habitat for Humanity homes sponsored by Manitoba Lotteries. It's his way of helping others find a place to grow and prosper here, just as he has.

Our workforce is our most important asset and we will continue to improve our people programs and services as a way of making our employees feel valued, as well as ensuring their career satisfaction and success.

Top Employer Honours

We work diligently to integrate a people-first philosophy into all our business practices as we strive to be an employer of choice. Our efforts have been richly affirmed by the loyalty of our dedicated employees, as well as validated externally.

A recent independent study by consulting firm Deloitte Inc. recognized Manitoba Lotteries as a leader among federal and provincial Crown corporations and agencies for achieving progressive and balanced best practices in human resources management. Earlier in the year, we achieved a first-time ranking as one of the Top Employers for New Canadians. This added to our existing honour as being among Canada's Best Diversity Employers and Manitoba's Top 25 Employers.

We hold in high esteem our Gold Level Status in the Progressive Aboriginal Relations Program of the Canadian Council for Aboriginal Business, as well as the multi-year recognition received from the Human Resource Management Association of Manitoba and Imagine Canada.

In addition to being recognized for our human resources best practices, we were honoured to receive our sixth consecutive Distinguished Budgetary Presentation Award of Excellence from the Government Finance Officers Association of the United States and Canada (GFOA), the highest recognition for government accounting and financial reporting.

Setting Higher Standards

This year, we enhanced our Casino Service Standards Program, which gives coaching to staff in the delivery of four vital casino service standards: Providing friendly, respectful and prompt service; Promoting responsible gaming; Creating a fun and exciting experience for customers; and resolving problems quickly, fairly and sensitively. Through this program, employees acquire the skills necessary to function at a high level of productivity by learning and practicing these skills as a baseline for customer service. This program ensures the standards become ingrained in our corporate culture. In 2010, Casino and Video Lotto staff attended training sessions that included an enhanced fourth training module featuring more in-depth service standards for persons with disabilities.

Another facet of customer service is security, and Manitoba Lotteries maintains excellent ongoing relationships with local law enforcement agencies. This year, we hosted joint training with the Manitoba Gaming Control Commission and the Winnipeg Police Service in a robbery awareness seminar, as well as with the RCMP in a session on foreign currency counterfeiting.

Employee Engagement

Keeping our employees informed and engaged was the objective of The Big Picture - All Employees Business Meeting held at Club Regent and McPhillips Station Casinos. Featuring a CEO keynote address, a multimedia presentation and interactive employee activities, these meetings are slated to be held biennially to focus on themes such as business activity and customer service.

The results of our third Organizational Excellence Employee Survey, which received a commendable 83% response rate, were shared with employees within each division. We are pleased to see an increase in employee engagement that puts us on track to meet our three-year strategic goal for engagement. Because a number of questions were directly tied to our approach to corporate social responsibility, this feedback will be used to further the direction of this initiative.

We continued to introduce new e-learning courses for employee professional development. These flexible training opportunities are well received by individuals with the courses accommodating a wide variety of work shifts, and we intend to expand both the course offerings and the accessibility options by developing new on-site training centres at both casino locations. Greater employee engagement has also been attained through Encore, Manitoba Lotteries' service standards recognition program that originally launched in the casinos in 2008, and which was taken corporation-wide this fiscal year. The program celebrates the everyday successes of our people by giving employees on-the-spot recognition when they deliver particularly exceptional service.

The Mile Ahead

This year, we began construction on advanced training facilities for our casino staff. Known as STAR (Skills, Training, Achievement and Resource) Centres, these classrooms and e-learning labs will create an environment for employees to develop their skills and meet their career objectives. Once completed, staff will have flexible access to the facilities, ensuring they are provided with quality training and study space that accommodates their schedules.

Since 2009, Manitoba Lotteries has led a two-year pilot project to generate career opportunities across the Canadian gaming industry. Called Developing Essential Skills for the Gaming/Casino Industry in Canada, the federally supported project will focus on meeting the educational needs of new and potential employees with particular support for Aboriginal and new Canadians. Among the project's planned results, early next fiscal year, is a comprehensive website designed to educate career seekers about the industry and resources for gaming and employment organizations.

Employees received a Heart & Stroke Award for AED use.

The Charity of Choice campaign is organized and managed by an employee-driven body called Employees Care by Helping Others (ECHO).

Garrett, two-and-a-half years old, has cerebral palsy. His mother, Liza, shares what it meant to receive a modified bike through the fundraising efforts of Manitoba Lotteries employees for the Children's Rehabilitation Foundation, in support of the Rehabilitation Centre for Children:

"The look on his face the first time he rode it...it just melted your heart – big smile on his face, and giggling and pointing. They gave him that independence, which is unexplainable for what it's done for him."

WE GO THE EXTRA MILE TO:

BE EFFICIENT AND EFFECTIVE.

FIVE FRIENDS ARE OUT ON THE TOWN, looking forward to a night of fun at Club Regent Casino. When one of the women accidentally drops her camera, staff kilometers away at Manitoba Lotteries' state-of-the-art surveillance room quickly spot the item and notify casino staff. Casino security returns the camera to its rightful owner and with the press of a button, the moment is saved for posterity in another group shot – this time, with their heroic security guard.

Behind every successful operation is a successful team. At Manitoba Lotteries, we are able to provide quality products and an exceptional entertainment experience because of the people and processes behind the scenes that make it all work, ensuring we streamline processes, implement new technology, measure performance and seek new ways to improve the delivery of services while protecting the bottom line.

Facility Improvements Enhance Customer Experience

Without most customers realizing, their casino visits have been greatly enhanced thanks to the completion of our state-of-the-art centralized surveillance room that serves property security, safety and gaming integrity, as well as ensures our effective response when a patron or employee may require assistance. By combining two previous surveillance units at different sites, the new room has immediately created staffing efficiencies and cost savings and gives us an opportunity to integrate some of the most cutting-edge best practices in the industry. The new room was designed with significant input and involvement from our surveillance staff, taking into account the unique nature of their responsibilities and job needs related to ergonomic work stations and the ability to control factors such as temperature, lighting and air filtration inside their micro-environment. Using recycled building materials kept the project environmentally sustainable.

To allow for improved information sharing and processing between business units, we successfully implemented an Integrated Financial Management System. The new financial software has already helped to create efficiencies, automate manual processes, facilitate auditing and put control mechanisms into place as well as ensuring compliance with International Financial Reporting Standards.

As cost effective as it is user-friendly, a new, self-serve uniform conveyor system has been installed at the casinos, along with enhanced in-house washing capacity, enabling staff to easily launder their uniforms at the end of their shift. The new system's increased automation provides "anytime" self-serve convenience as well as water and energy-efficient features to ensure overall cost savings.

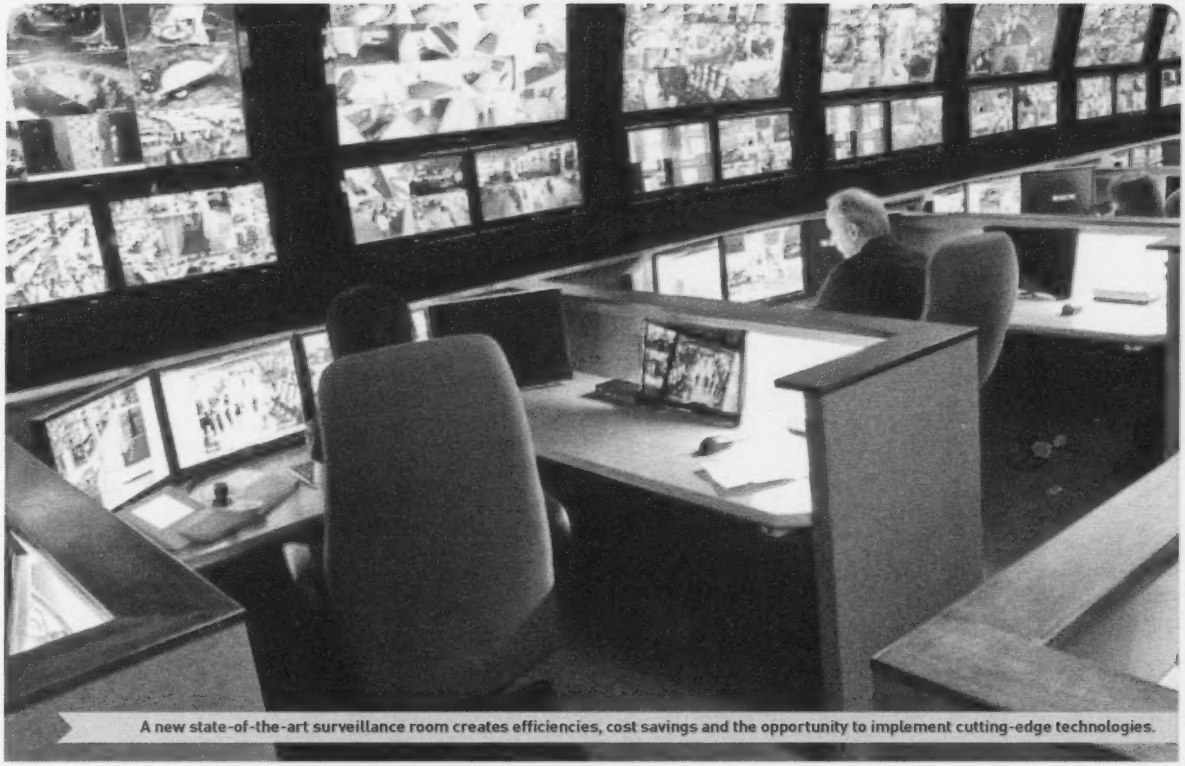
Our casino restaurants' composting program continues to successfully manage and minimize the amount of organic food waste generated by our kitchens. Started in 2008, the program collects and diverts the waste to a commercial composting facility, ensuring we do our part to reduce unnecessary landfill disposal.

The Mile Ahead

Next year, a new client and sales information system will be implemented for use by Manitoba Lotteries in partnership with the Western Canada Lottery Corporation. The features of the new system, including access to constantly-refreshed retail data, will help improve product management and allow us to respond to lottery retailers' needs on a more immediate basis. Once integrated for use with our other systems, this upgrade will replace the current client database, inventory, sales reporting and distribution information system, allowing us to access real-time sales inventory per lottery retailer as well as collect sales reports and data analysis to study market trending.

Next year, we plan to introduce a comprehensive website specifically for Manitoba's lottery retailers and VLT siteholders. Designed to enhance communication with our business partners, the site will ensure the timely distribution of important notices and facilitate retailer-specific business processes with easy-to-access documents.

A new casino food and beverage inventory control system will be put into place to make our daily operations more auditable. The new system will enable us to more accurately identify details of actual costs within all our restaurants and lounges. By directly linking to our point-of-sale system, we will be better positioned to find any variances in pricing and make timely adjustments accordingly.

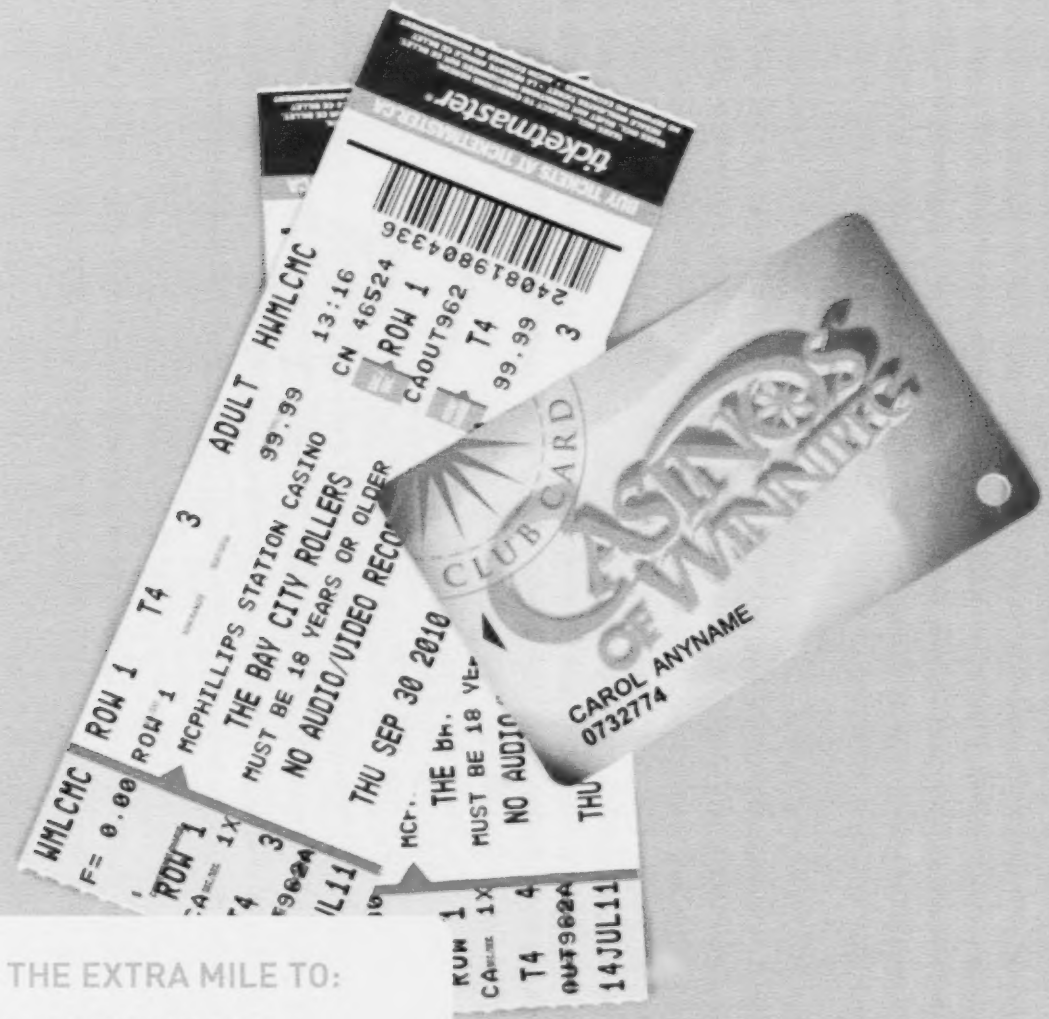


A new state-of-the-art surveillance room creates efficiencies, cost savings and the opportunity to implement cutting-edge technologies.

Employees have benefited from the launch of an Integrated Financial Management System.

We joined five partners in a Lake Friendly initiative, using only cleaning products which do not harm our province's lakes.

NEW BUSINESS DEVELOPMENT



WE GO THE EXTRA MILE TO:

RETAIN AND GROW OUR CUSTOMER BASE.

SUDDENLY, CAROL IS NINETEEN AGAIN.
She's just received the latest *Club Card Connection* e-newsletter announcing that the Bay City Rollers are playing an upcoming concert at McPhillips Station Casino. With a few clicks of the mouse, a giddy Carol is on the new Casinos of Winnipeg website, getting all of the show details and buying her tickets online. Now all she has to do is wait for the big night. And dig out her Rollermania tartan.

By engaging with our valued customers through research and careful listening, we have a solid understanding of the products and entertainment they want to experience with us. For instance, a seamless experience that includes both dining and entertainment has been developed at our casinos. Manitoba Lotteries' commitment to the customer is what ensures our growth and ultimately, our success.

Improving Our Facilities

As detailed in our Responsibility to Community section, we are fully committed to ensuring that any improvements we make at our facilities are environmentally sound and sustainable. Upgrades being made at both casinos will ensure our business stays current and competitive.

McPhillips Station Casino opened a new five-table poker room in the Upperdeck Sports Bar, and a Noodle Bar adds to the growing list of dining options. The new Crystal Room and Double Down Lounge convey a distinctly refined appeal that reflects the revitalized atmosphere of the casino.

At Club Regent Casino, a completely redesigned Toukie's Lounge and gaming area was introduced to provide customers with a brand new experience. As with the Crystal Room at McPhillips Station Casino, this stylishly-designed area suggests the modern look and feel that Club Regent Casino is growing into.

Enhancing Our Profile

Manitoba Lotteries has launched an exciting new and interactive website for the Casinos of Winnipeg, giving customers faster, timelier news about casino promotions and events. We are now focusing on improving customer retention and contact through improved database segmentation. This includes the development of programs that encompass communication targeted at new customers, customer re-activations and member birthday messaging, as well as strategies for delivering the right information, incentives and rewards to the right customers. The performance of segmented direct marketing can now be tracked and monitored for effectiveness to ensure improved customer interaction and overall sales.

We have continued our efforts to attract new customers by extending our range of promotional events and by participating in opportunities to promote local tourism. Manitoba Lotteries was a presenter and sponsor of Centrex, the annual convention of the Manitoba Hotel Association. And we exhibited at the Red River Ex's Savoir Faire, allowing us to showcase our products, venues and the many food and beverage offerings at the casinos.

Sharing Our Expertise

Manitoba Lotteries has provided tours of our new, state-of-the-art surveillance room to various organizations for the purpose of evaluating future service opportunities. Our facility has the capacity to conduct remote monitoring for critical infrastructure systems of other businesses. We believe this type of long-term planning has the potential to create greater synergy within the business community and we foresee many opportunities to share our expertise.

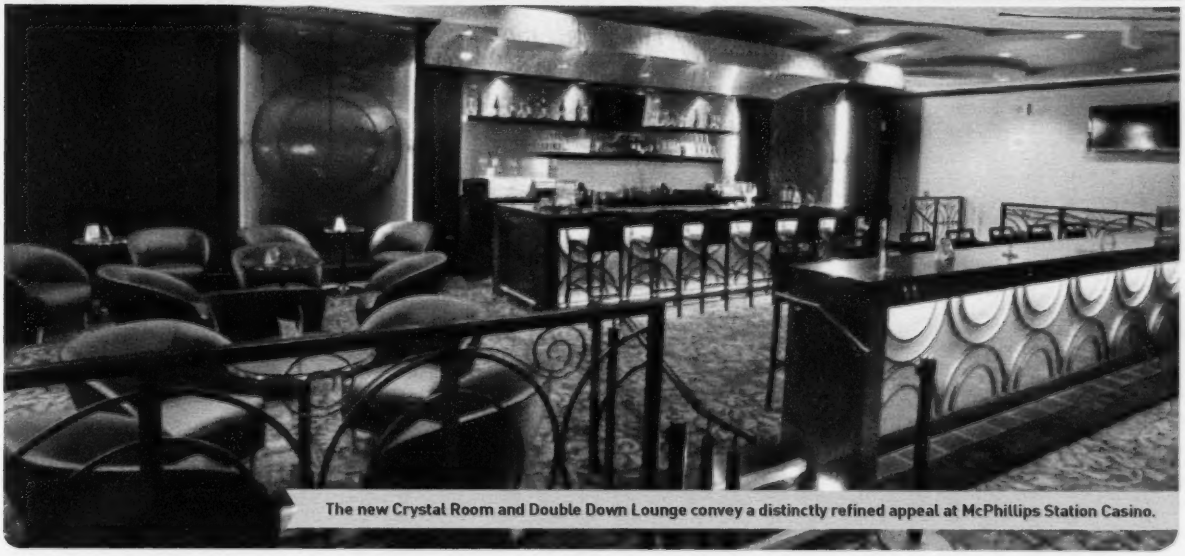
The Mile Ahead

We are advancing our plans to build a new hotel and link at McPhillips Station Casino. The environmentally-friendly demolition of the former hotel next to McPhillips Station Casino was successfully completed at the end of this year.

Impressive reconfigurations are scheduled for Club Regent Casino. Table games will be relocated while the Royal Palms Restaurant merges with Jaguars Lounge to become Jaguars Restaurant & Lounge, creating Winnipeg's latest restaurant-lounge concept. The concert bowl will also be renovated to accommodate a greater number of guests and draw a new range of performances to the venue.

We will continue to seek out innovative stakeholder partnerships and new ways of extending our relationship with customers. Manitoba Lotteries continues to analyze its customer and market research to develop new tour offers and retain the number of out-of-town casino visitors we currently attract. We will also continue to conduct research into online gaming and monitor other Canadian gaming jurisdictions with respect to those opportunities.

A completely redesigned Toukie's Lounge and gaming area was introduced at Club Regent Casino.



The new Crystal Room and Double Down Lounge convey a distinctly refined appeal at McPhillips Station Casino.

THE MANAGEMENT DISCUSSION AND ANALYSIS reviews the consolidated financial results of the operation of Manitoba Lotteries Corporation for the fiscal year ended March 31, 2011. This report should be read in conjunction with Manitoba Lotteries' audited consolidated financial statements and accompanying notes. Management is responsible for the reliability and timeliness of the information disclosed in the Management Discussion and Analysis and does so by implementing and monitoring the appropriate existence and effectiveness of systems, controls and procedures used by Manitoba Lotteries.

MANAGEMENT DISCUSSION AND ANALYSIS

of Financial Condition and Results of Operations as at March 31, 2011

Overview and Vision

Manitoba Lotteries strives to provide its customers and guests with world-class products and services that meet or exceed expectations in a socially responsible manner.

Advances made toward achieving this goal within the past 12 months have resulted in an increase in financial performance as Manitoba Lotteries Net Income of $332.1 million for the fiscal year 2010/11 increased by $25.4 million or 8.3% as compared to the 2009/10 Net Income of $306.7 million.

Revenues of $811.1 million increased $43.5 million or 5.7% from the previous year's level of $767.6 million. This increase can be attributed to increased revenues from Lottery and the Casinos, offset by decreased revenues in Video Lotto. As part of a long-range strategic goal of creating full service customer satisfaction, Manitoba Lotteries continually reviews existing product offerings in order to enhance customers' overall experiences.

Revenue, net of cost of sales was $601.4 million in 2010/11 compared to $555.5 million in the previous year, an increase of $45.9 million. Operating expenses of $140.8 million were $5.4 million higher than the previous year's $135.4 million, and include payroll and other costs directly related to the generation of gaming and lottery revenues. This is primarily a result of increases in salaries and benefits under the collective agreements, and increased maintenance costs related to building and equipment upgrades.

Amortization of $24.7 million for 2010/11 decreased $5.8 million from $30.5 million in 2009/10. The decrease was primarily a result of the video lottery terminals being fully amortized.

Results of Operations

The three operating segments of Manitoba Lotteries are Video Lotto, Casinos and Lottery. For reporting purposes, the administrative costs associated with corporate support services, including human resources, finance and administration, marketing, facilities, technology, audit, security, communications and public affairs, have been allocated to each of the operating segments outlined below.

	2010/11			
(in thousands)	Video Lotto	Casinos	Lottery	Total
Revenue				
Revenue	$ 330,482	$ 235,395	$ 245,184	$ 811,061
Cost of sales	33,766	15,201	160,683	209,650
	296,716	220,194	84,501	601,411
Expenses				
Operating expenditures	26,933	103,666	10,184	140,783
Amortization	5,596	19,055	-	24,651
Interest expense - long-term	2,124	6,108	203	8,435
Goods and Services Tax	2,612	1,900	237	4,749
	37,265	130,729	10,624	178,618
Income before Allocations and Payments	259,451	89,465	73,877	422,793
Allocations and Payments	78,313	6,002	6,377	90,692
Net Income and Comprehensive Income	**$ 181,138**	**$ 83,463**	**$ 67,500**	**$ 332,101**

(in thousands)	2009/10 Video Lotto	Casinos	Lottery	Total
Revenue				
Revenue	$ 340,478	$ 221,577	$ 205,507	$ 767,562
Cost of sales	61,002	14,292	136,777	212,071
	279,476	207,285	68,730	555,491
Expenses				
Operating expenditures	24,908	103,338	7,141	135,387
Amortization	13,622	16,905	-	30,527
Interest expense - long-term	2,918	7,150	241	10,309
Goods and Services Tax	6,907	1,237	133	8,277
	48,355	128,630	7,515	184,500
Income before Allocations and Payments	231,121	78,655	61,215	370,991
Allocations and Payments	52,314	5,990	6,014	64,318
Net Income and Comprehensive Income	**$ 178,807**	**$ 72,665**	**$ 55,201**	**$ 306,673**

Video Lotto

Located in Morris, Manitoba, Video Lotto is responsible for the operation and maintenance of VLTs. VLTs are located at Manitoba Liquor Control Commission licensed beverage rooms, Veterans organizations, First Nations communities, Assiniboia Downs and the MTS Centre. The operation of VLTs contributed over 54.5% of Manitoba Lotteries' Net Income and provided annual commissions and contributions of $108.0 million to all VLT siteholders who operate equipment on their premises.

Video Lotto operations generated revenue of $330.5 million in 2010/11, a decrease of $10.0 million or 2.9% from the revenue of $340.5 million in the previous year. Net Income of $181.1 million increased $2.3 million or 1.3% from the Net Income of $178.8 million in the previous year. During the 2010/11 fiscal year, Manitoba Lotteries redistributed VLTs from low performing sites to higher performing sites, which helped to offset the decrease; however, revenues continued to decline due to obsolete equipment and other factors.

In January 2010, there was a change to the commission structure for First Nations (FN) and commercial siteholders, as well as Assiniboia Downs. The service component provided to Manitoba Lotteries was reviewed resulting in this change.

The new commission structure is now more reflective of the actual service which siteholders provide as the host of the VLT equipment. However, these siteholders now receive a contribution in addition to their commission to offset the reduction in commission rates. There were no changes to the commission structure for the MTS Centre or Veterans organizations.

ASSINIBOIA DOWNS

Prior to January 1, 2010, 20% of the VLT revenues represented commissions paid for the service provided to Manitoba Lotteries for hosting VLT equipment. The remaining 55% represented a contribution to support horse racing in the province. Effective January 1, 2010, of the 75% of the revenue generated by the VLTs, the Manitoba Jockey Club Inc. now receives 10% commission and 65% contribution of the revenue generated by the VLTs.

FIRST NATIONS

FN siteholders continue to retain 90% of net win from the VLTs. Of that 90%, 5% of the net win is more reflective of the actual service component provided (instead of the previous 20%). The contribution that FN siteholders receive to promote sustainable social and economic benefits and opportunities with the FN communities, has been raised from 70% to 85%.

COMMERCIAL

Commercial siteholders continue to retain 20% of the net win from VLTs. Of this 20%, 10% is reflective of the actual service component provided by the siteholders and the other 10% is provided as a contribution to siteholders so they continue to promote tourism in the province.

PAYOUT PERCENTAGE BASED ON DOLLARS WON AND PLAYED

Video Lotto

Dollars Deposited	$	1,411		
Dollars Played			$	4,626
Dollars Won			$	4,299
Dollars Cashed Out	$	1,084		
Revenue	$	327	$	327
Dollars Won (Prizes)	$	4,299	92.9%	
Dollars Played	$	4,626		

Casinos

Manitoba Lotteries owns and operates two casinos in the city of Winnipeg – Club Regent Casino and McPhillips Station Casino. Casino operations generated revenues of $235.4 million in 2010/11, an increase of $13.8 million or 6.2% more than the revenues of $221.6 million of the previous year.

Casino Net Income of $83.5 million increased from the previous year's Net Income of $72.7 million by $10.8 million or 14.9%. In 2010/11, there was a continued focus on the casinos as a total entertainment destination, resulting in increased visitor traffic for non-gaming related amenities. Throughout the fiscal year, there was a focus on improving the gaming offerings by updating certain games and also by introducing new games. The Club Card program, which allows patrons to accumulate points redeemable for non-gaming goods and services, continues to be favourably received by customers and contributed to the successful operations of the casinos during the 2010/11 year.

PAYOUT PERCENTAGE BASED ON DOLLARS WON AND PLAYED

Casinos

Dollars Deposited	$	1,158		
Dollars Played			$	2,378
Dollars Won			$	2,186
Dollars Cashed Out	$	966		
Revenue	$	192	$	192
Dollars Won (Prizes)	$	2,186	91.9%	
Dollars Played	$	2,378		

Lottery

The Province of Manitoba is a member of the Western Canada Lottery Corporation (WCLC), a non-profit organization authorized to manage, conduct and operate lottery and gaming-related activities in the prairie provinces and the territories. Manitoba Lotteries distributes and sells tickets for national lotteries operated by the Interprovincial Lottery Corporation (ILC) and lottery gaming products operated by the WCLC. As the province's sole distributor of lottery products, Manitoba Lotteries is responsible for the development and maintenance of a retailer network of over 850 outlets across Manitoba and market a selection of breakopen tickets through lottery retail outlets, charitable organizations and casinos across the province. Manitoba Lotteries also continues to be the exclusive supplier of bingo paper to Manitoba's charitable and non-profit licensed bingo operators.

In 2010/11, Lottery revenues of $245.2 million increased from the previous year's revenue of $205.5 million by $39.7 million or 19.3%. This increase is attributed to increased sales of instant tickets and Lotto Max. Net Income of $67.5 million increased from the previous year's Net Income of $55.2 million by $12.3 million or 22.3%. Manitoba Lotteries continued to strengthen its processes over this past fiscal year by continuing to enhance/enforce the procedures that now require retailers to return all tickets to customers; conducting Mystery Shops; and by continuing to provide lottery retailers with the necessary tools, including training and technology to enhance customer service.

First Nations

In 2010/11 Manitoba Lotteries continued to provide support to the First Nations casino operators in Manitoba. During the fiscal year, Aseneskak moved forward with the planning of the next phase of their Slot Floor Refurbishment Program. Manitoba Lotteries is providing the assistance and capital financing for this project, which is expected to be completed in 2011/12. These funds will be recovered over the five (5) year life of the equipment as authorized under the Gaming Agreement.

South Beach Casino continues to enjoy their expanded gaming operations. During 2010/11 they added new technology to their floor by introducing Ticket Redemption Terminals. Manitoba Lotteries provided $0.2 million in capital financing for this project. All costs of gaming equipment and supplies were funded by Manitoba Lotteries and are being recovered over a five (5) to seven (7) year term as authorized by the Gaming Agreement.

MLC Holdings Inc.

Manitoba Lotteries' consolidated financial statements include the results of MLC Holdings Inc., a controlled entity established to purchase capital assets for lease to Manitoba Lotteries at cost. The management and oversight of MLC Holdings Inc. is consolidated within Manitoba Lotteries' operations and the Board reviews and approves capital purchases through the annual business planning and budget process. During the 2010/11 fiscal year, MLC Holdings Inc. acquired $29.7 million in capital assets for lease to Manitoba Lotteries.

Liquidity and Capital Resources

Operating activities during 2010/11 provided Manitoba Lotteries with $367.2 million in cash flows compared to $351.1 million in the previous year, an increase of $16.1 million or 4.6%. Net change in non-cash working capital items increased by $2.8 million. This was offset by increases in operating results of $25.4 million and decreases in amortization of $5.9 million.

Cash expended on property and equipment for 2010/11 totaled $41.1 million as compared to the $26.9 million expended in 2009/10. In 2010/11, Manitoba Lotteries purchased the hotel adjacent to McPhillips Station Casino for redevelopment.

Manitoba Lotteries continues to be progressive by providing proven, state-of-the-art products, services and facilities to all customers and employees through the ongoing process of replacing gaming and security equipment. Not only does this support Manitoba Lotteries' corporate goals, it enhances service, reliability and gaming integrity.

Cash distributions to the Province of Manitoba resulted in a cash outflow of $314.4 million compared to the previous year's $308.6 million, representing an increase of 1.9%.

Risk Management

Manitoba Lotteries continues to use and enhance its integrated Enterprise Risk Management Framework for assessing and managing risks at all levels across the corporation. This provides a consistent approach for addressing business risks at the strategic and business planning, project management and business process levels by:

- providing a common understanding of risks across business functions and units;
- providing management with an on-going assessment of potential risks to facilitate improved priority setting and decision making; and
- raising employee awareness and responsibility for managing these risks.

In the normal course of business, Manitoba Lotteries is exposed to a number of risks. These risks, and the actions taken to lessen and, in some cases, mitigate them are discussed below.

Operating Risk

Operating risk associated with processes, technology and people addresses the risk of loss resulting from events such as system failures, breakdown in internal controls, human error and criminal activity. It has been proven that losses such as a measurable decline in client confidence, gaming integrity and corporate image can be as damaging for an organization as a direct financial loss.

Manitoba Lotteries management remains committed to strengthening the existing system of internal controls and minimizing operational risk as much as possible. This has already been partially addressed by assessing the amount of risk present in operating units, large-scale

projects as well as specific business processes. Current areas of concentration continue to be towards emergency preparedness planning, business continuity plans and disaster recovery planning. Additional attention to these areas will provide Manitoba Lotteries with the ability to more effectively respond to disasters as well as small and large scale business interruption events.

Technological Developments

The adoption of new technologies within the gaming industry continues, including the acceptance of industry-wide standards leading to increased convergence and integration across many systems, product lines and related processes. Manitoba Lotteries continues to work with other jurisdictions to develop common requirements and standards across Canada to streamline development and procurement of systems and devices. This will enable Manitoba Lotteries to continue to progress on their long-range VLT Product Refresh Strategy which will keep product offerings current and support customers' and siteholders' suggestions. Manitoba Lotteries also continues to refine its business processes to optimize the efficiency and effectiveness of the new opportunities being presented.

Technological change is also helping Manitoba Lotteries to improve its customer service and enhance the overall guest experience, and will eventually provide an increased level of personalization across its many product lines. Finally, new technologies are providing management with better information, which will allow for more informed decision making. In addition, a System Convergence initiative has been initiated to provide the tools to enable interoperability between various software applications and allow sharing of data across applications and lines of business for an enterprise view.

In June 2010, Manitoba Lotteries implemented the Lawson Financial System, which will enable the corporation to meet the reporting requirements under International Financial Reporting Standards (IFRS) for the 2011/12 fiscal year. This system enhances not only financial reporting but also Manitoba Lotteries ability to integrate leading practices and operational efficiencies into most areas of its operations.

As Manitoba Lotteries becomes more reliant on technology to support its business, various strategies have been developed to manage the risks associated with new technologies. These include the development of formal technology strategies, architectures and roadmaps to help guide the corporation's future direction. Manitoba Lotteries continues to invest significant resources in the area of information systems security and disaster recovery business continuity activities.

Financial Risks

Manitoba Lotteries' exposure to interest-rate risk is substantially limited due to the use of fixed-rate, long-term debt. Credit risk due to the inability or unwillingness of a counter party to fulfill its payment obligations, while low, is mitigated through Manitoba Lotteries' credit management and collection practices. The financial impact resulting from property losses or third-party liability claims are allayed through traditional risk management practices, such as maintaining adequate insurance coverage and coordinating loss mitigation strategies across the organization.

For the sixth consecutive year, Manitoba Lotteries has been recognized for excellence in government budgeting. The honour has been enhanced by special recognition in four (4) judging categories: effectiveness as a policy document, operating guide, financial plan and communications device. Manitoba Lotteries is committed to meeting the highest principles of government budgeting.

Internal Controls over Financial Reporting

Manitoba Lotteries management has proactively and voluntarily adopted a program to evaluate internal controls over financial reporting consistent with the guidelines under Canadian Securities Administrator's National Instrument 52-109.

Internal controls over financial reporting have been designed by management, with the participation of the President & Chief Executive Officer (CEO) and the Executive Vice President & Chief Financial Officer (CFO), to provide reasonable assurance regarding the reliability of Manitoba Lotteries' financial reporting and its preparation of financial statements for external purposes in accordance with generally accepted accounting principles (GAAP).

In making its assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework.

Based on that assessment, the CEO and CFO have concluded that, as at March 31, 2011, Manitoba Lotteries' internal controls over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the presentation of financial statements in accordance with GAAP.

The CEO and CFO, together with management, after evaluating the effectiveness of Manitoba Lotteries' disclosure controls and procedures as of March 31, 2011, have concluded that the disclosure controls and procedures were proven to be adequate and effective.

There have been no material changes to Manitoba Lotteries' internal controls over financial reporting during the year ended March 31, 2011.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed that it will require all publicly accountable enterprises to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

As a result of this announcement, Manitoba Lotteries is planning and preparing for the changes in financial reporting requirements. Based on its initial assessments, Manitoba Lotteries currently believes that the transition to IFRS will not materially impact the manner in which it recognizes and measures revenues and net income. Manitoba Lotteries' first consolidated financial statements presented in accordance with IFRS will be for the year ending March 31, 2012 and will include comparative information for the prior fiscal year.

Manitoba Lotteries has developed an IFRS implementation plan that addresses project management, accounting policy changes, reporting and disclosure changes, training and communication and business impacts. The following progress has been made in these areas:

A) PROJECT MANAGEMENT

Manitoba Lotteries has created an IFRS Steering Committee to provide guidance during the IFRS implementation project and has developed a timeline for key project milestones and deliverables to ensure IFRS readiness for the fiscal year 2011/12. As of March 31, 2011, the project continues to be on schedule in accordance with the implementation plan.

B) ACCOUNTING POLICY CHANGES

Manitoba Lotteries has completed its research and documentation of expected differences between its current accounting policies that are in accordance with Canadian GAAP and those to be adopted under IFRS and has finalized its accounting policies that will be required under current IFRS. The area with the greatest potential for future impact on Manitoba Lotteries' financial statements is measurement and disclosure of property and equipment.

The International Accounting Standards Board, which is responsible for developing IFRS, has activities currently underway which are expected to change certain IFRS. Manitoba Lotteries will continue to assess the impact of any changes made to IFRS as part of its implementation plan.

C) REPORTING AND DISCLOSURE CHANGES

Manitoba Lotteries is currently considering the financial statement presentation and disclosure options available to it upon initial changeover to IFRS and has developed reporting mechanisms to capture future IFRS disclosure information. At the date of transition to IFRS, the option exists to adopt certain exemptions from the full retrospective application, presentation and disclosure requirements of certain IFRS. Of the available exemptions, Manitoba Lotteries expects to measure property and equipment at its deemed cost at the date of transition. This is expected to result in an increase in property and equipment of $15.0 million, and a corresponding increase in equity of $15.0 million. It is anticipated that payments to the Province of Manitoba will not be affected by this accounting change.

The transition to IFRS will affect presentation and measurement of balances and transactions included in Manitoba Lotteries annual consolidated financial statements and related notes.

D) TRAINING AND COMMUNICATION

Manitoba Lotteries regularly informs its key stakeholders about the anticipated effects of the IFRS transition. IFRS training for relevant finance staff is ongoing, while targeted programs for operational staff is underway to raise awareness of the accounting impact that future business decisions may potentially have under IFRS. The Audit & Risk Management and Finance & Operations Committees of the Board receive project status updates.

E) BUSINESS IMPACTS

Manitoba Lotteries has considered what effects the IFRS transition will have on its business policies and activities. The following areas are likely to be impacted:

- Internal controls over financial reporting;
- Restatement and analysis of prior year results in order to provide comparative information;
- The 2011/12 budget has factored in any IFRS related impacts that were identified.

F) IFRS TRANSITIONAL OPENING BALANCE SHEET

Manitoba Lotteries is quantifying each of its measurement differences identified between Canadian GAAP and IFRS as at April 1, 2010 in order to prepare its opening IFRS balance sheet. Once each adjustment is finalized and assurance from external auditors is obtained, the impact of these adjustments will be reflected in the first consolidated financial statements presented in accordance with IFRS.

This disclosure reflects expectations based on information available at the time of reporting. Changes in circumstances may cause Manitoba Lotteries to revise its IFRS opening balance sheet and policy choices prior to the changeover date.

Outlook

Manitoba Lotteries' greatest opportunity to manage current operations is through revenue generation and cost containment. To ensure the long-term sustainability of revenues and income streams, Manitoba Lotteries continues to reinvest in its facilities, non-gaming amenities and in new gaming technology. The focus remains on positioning the casinos as a total entertainment experience, by improving its entertainment facilities and food and beverage operations, while continuing to introduce new and exciting gaming options. During Manitoba Lotteries business planning for the 2011/12 fiscal year, a number of initiatives were identified that will continue to deliver new and innovative entertainment options to the Casinos, Video Lotto and Lottery customers.

Manitoba Lotteries' support for the community is outlined within a governing Corporate Social Responsibility (CSR) Policy. Financial processes are used so all matters of CSR including Community Support, French Language services, Responsible Gaming, Sustainable Development and People Services are considered and supported across Manitoba Lotteries' operations. This approach augments the value of the business decisions Manitoba Lotteries makes so its decisions are consistent with the best interest of its stakeholders.

CONSOLIDATED FINANCIAL STATEMENTS

OF MANITOBA LOTTERIES CORPORATION, FOR THE YEAR ENDED MARCH 31, 2011

MANAGEMENT REPORT FOR 2010/11

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with the accounting policies stated in the consolidated financial statements. These accounting policies have been applied on a basis consistent with the prior year. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Corporation. Management designed such internal controls, or caused them to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and that the assets of the Corporation are properly safeguarded. As part of the financial statement audit performed by Ernst & Young LLP, they reviewed the Corporation's internal controls to the extent that they considered necessary and reported their findings to management and the Board of Directors.

The responsibility of Ernst & Young LLP is to express an independent opinion on whether the consolidated financial statements are fairly stated in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

The Audit and Risk Management Committee of the Board meets with management and Ernst & Young LLP to satisfy itself that each group has properly discharged its respective responsibilities and to review the consolidated financial statements before approving them. The Board has reviewed and approved the consolidated financial statements for the fiscal year ended March 31, 2011.

(originally signed by)

Winston Hodgins
President & CEO

(originally signed by)

Tracy Graham
Executive Vice President,
Finance & CFO

INDEPENDENT AUDITORS' REPORT FOR 2010/11

TO THE BOARD OF DIRECTORS OF
MANITOBA LOTTERIES CORPORATION

We have audited the accompanying consolidated financial statements of Manitoba Lotteries Corporation, which comprise the consolidated balance sheet as at March 31, 2011 and the consolidated statements of net income, comprehensive income and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manitoba Lotteries Corporation as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

(originally signed by)

Ernst & Young LLP
Chartered Accountants
Winnipeg, Canada
June 28, 2011

CONSOLIDATED BALANCE SHEET

MARCH 31, 2011 (IN THOUSANDS)

	Notes	2011	2010
ASSETS			
CURRENT ASSETS			
Cash		$ 32,012	$ 27,491
Accounts receivable	3	12,037	9,600
Inventories	4	2,646	2,628
Prepaid expenses	5	2,182	2,107
		48,877	41,826
PROPERTY AND EQUIPMENT	6	170,723	156,735
OTHER ASSETS	7	4,541	4,794
		$ 224,141	$ 203,355
LIABILITIES AND RETAINED EARNINGS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	8	$ 46,435	$ 35,674
Payable to the Province of Manitoba		19,401	1,673
Current portion of long-term debt	9	17,221	17,562
		83,057	54,909
LONG-TERM DEBT	9	135,300	142,621
PROVISION FOR EMPLOYEE PENSION BENEFITS	10	784	825
TOTAL LIABILITIES		219,141	198,355
Commitments and contingencies	13		
RETAINED EARNINGS		5,000	5,000
		$ 224,141	$ 203,355

(see accompanying notes to the consolidated financial statements)

On behalf of the Board,

(originally signed by)

Tim Valgardson
Director & Chair of the Board of Directors

(originally signed by)

Gerald Rosenby
Director & Chair of the Audit & Risk Management Committee

CONSOLIDATED STATEMENT OF NET INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31, 2011 (IN THOUSANDS)

	Notes	2011	2010
REVENUE			
Revenue		$ 811,061	$ 767,562
Cost of sales		209,650	212,071
		601,411	555,491
EXPENSES			
Operating expenditures		140,783	135,387
Amortization		24,651	30,527
Interest expense – long-term		8,435	10,309
Goods and Services Tax		4,749	8,277
		178,618	184,500
INCOME BEFORE ALLOCATIONS AND PAYMENTS		422,793	370,991
ALLOCATIONS AND PAYMENTS	12		
WCLC partner equalization		3,459	3,325
Payment to Government of Canada		2,283	2,333
Gaming Commission fees & Crown levy		3,116	2,824
First Nations allocation		43,661	37,325
Manitoba Jockey Club Inc. contribution		5,457	4,746
Tourism contribution		25,141	6,251
Responsible gaming funding		3,634	3,466
Casino bingo volunteer program		3,941	4,048
		90,692	64,318
NET INCOME AND COMPREHENSIVE INCOME		332,101	306,673
RETAINED EARNINGS, BEGINNING OF THE YEAR		5,000	5,000
Allocation to the Province of Manitoba		(332,101)	(306,673)
RETAINED EARNINGS, END OF THE YEAR		$ 5,000	$ 5,000

(see accompanying notes to the consolidated financial statements)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2011 (IN THOUSANDS)

	Notes	2011	2010
OPERATING ACTIVITIES			
Net income and comprehensive income		$ 332,101	$ 306,673
Add (deduct) items not involving cash:			
Amortization related to property and equipment		24,398	30,281
Amortization on assets related to First Nations casinos		2,673	2,655
Amortization related to other assets		253	246
Gain on disposal of property and equipment		(423)	(13)
Provision for employee pension benefits		(41)	282
		358,961	340,124
Net change in non-cash working capital items	15	8,231	11,010
CASH PROVIDED BY OPERATING ACTIVITIES		367,192	351,134
INVESTING ACTIVITIES			
Purchase of property and equipment		(41,059)	(26,912)
Proceeds from disposal of property and equipment		423	13
CASH USED IN INVESTING ACTIVITIES		(40,636)	(26,899)
FINANCING ACTIVITIES			
Cash distributions to the Province of Manitoba:			
Current year		(312,700)	(305,000)
Prior year		(1,673)	(3,580)
Proceeds from long-term debt		11,000	700
Repayment of long-term debt		(18,662)	(13,493)
CASH USED IN FINANCING ACTIVITIES		(322,035)	(321,373)
NET INCREASE IN CASH DURING THE YEAR		4,521	2,862
CASH, BEGINNING OF THE YEAR		27,491	24,629
CASH, END OF THE YEAR		$ 32,012	$ 27,491
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid		$ 9,464	$ 10,625

(see accompanying notes to the consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011 (IN THOUSANDS)

1. Background

The Manitoba Lotteries Foundation was established by the *Manitoba Lotteries Foundation Act*. On July 27, 1993, the Act was amended and continued under the *Manitoba Lotteries Corporation Act*. By consent of the Legislative Assembly of Manitoba, the organization continues its operations as a Crown corporation under the name of the Manitoba Lotteries Corporation (Manitoba Lotteries) or the Corporation.

2. Significant Accounting Policies

(A) BASIS OF CONSOLIDATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and combine the accounts of Manitoba Lotteries and MLC Holdings Inc. This controlled entity was established to purchase capital assets, which are leased to Manitoba Lotteries at cost. All intercompany transactions and accounts have been eliminated on consolidation.

(B) WESTERN CANADA LOTTERY CORPORATION

The Western Canada Lottery Corporation (WCLC) was incorporated without share capital under Part II of the *Canada Corporations Act* on May 13, 1974. The provincial governments of Manitoba, Saskatchewan and Alberta are members in the Corporation, and the Yukon Territory, the Northwest Territories and Nunavut participate with the provinces as associate members in the sale of gaming products. Each province and territory has appointed a lottery organization to assist the WCLC with the distribution of gaming products in its jurisdiction (Manitoba Lotteries for the Province of Manitoba). The proportionate share of WCLC's sales and cost of sales is included in the consolidated financial statements based on relative sales levels by jurisdiction.

(C) FIRST NATIONS CASINOS

The Government of Manitoba has overall control over gaming in Manitoba in accordance with the requirements of the Criminal Code of Canada, and has appointed Manitoba Lotteries to act as its agent in the Conduct and Management of the gaming regime. Through a selection process, the Government has provided certain First Nations the opportunity to operate casinos, with Manitoba Lotteries maintaining the Conduct and Management authority over these casinos. Effective December 1, 2005, the Corporation received approval from its Board of Directors to discontinue the recovery of general administrative and compliance costs from First Nations casinos and to provide these services only upon request on a fee for service basis. The Corporation will continue to recover all direct and/or gaming related expenses.

(D) REVENUE AND EXPENSES RECOGNITION

Revenue and expenses are recorded on an accrual basis except for lottery revenue. Lottery revenue is recorded as of the date of the draw with the exception of instant game revenue which is recorded at the time the ticket is activated by the retailer via the on-line accounting system for sale to customers. Video lottery and other gaming revenue is recorded net of prizes paid. Administration fees related to First Nations are recorded in income as earned.

(E) PROPERTY, EQUIPMENT AND AMORTIZATION

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and amortized on a straight-line basis according to their estimated useful lives.

Furniture and equipment	4-5 years
Gaming equipment	5 years
Casino stages	10 years
Buildings and parking lots	30 years
Leasehold improvements	Over term of lease
Capital lease – building	25 years
Assets related to First Nations Casinos	5-7 years
Other assets – see note 7	26 years

Capital assets related to First Nations casinos under the Conduct and Management Agreement consist primarily of the cost of the gaming equipment and related computer equipment.

Property and equipment not yet in use is classified as work in progress and is stated at cost. No amortization is recorded for these assets.

(F) GOODS AND SERVICES TAX

In lieu of Goods and Services Tax (GST) on lottery and gaming revenue, the Corporation foregoes claiming input tax credits and pays an additional 5% GST on gaming expenditures, including retailer commissions. This additional 5% is reported as GST expense.

An input tax credit is claimed for GST paid on non-gaming expenditures.

(G) INVENTORIES

Inventories are valued at the lower of cost and replacement value for replacement parts and the lower of cost and net realizable value for all other inventory.

(H) PENSION PLANS

In accordance with the provisions of the *Civil Service Superannuation Act* (Act), employees of the Corporation are eligible for pension benefits. Plan members are required to contribute to the Civil Service Superannuation Fund (Fund) at prescribed rates for defined benefits and will receive benefits based on the length of service and on the average of annualized earnings calculated on the best five years prior to retirement, termination or death that provides the highest earnings. The Corporation is required to match contributions contributed to the Fund by the employees at prescribed rates, which is recorded as an operating expense. Under this Act, the Corporation has no further pension liability.

For employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund, a pension liability is established. This liability is determined actuarially on an annual calendar year basis with the balance for the intervening time frame being determined by a formula provided by the actuary. Actuarial gains and losses are recognized in income immediately.

The Corporation also makes contributions for employees and officers to a money purchase pension plan at prescribed rates.

(I) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities are translated at the year-end exchange rate while non-monetary assets and liabilities and revenue and expenses are translated at the exchange rate prevailing on the transaction date. All exchange gains and losses are reflected in income during the period they occur.

(J) USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

(K) PROMOTIONAL ALLOWANCES

The retail value of food, beverages and other items provided on a complimentary basis to customers has been included in gross revenue and a corresponding amount has been deducted as promotional allowances. Costs of providing these promotional allowances have been included in operating expenses.

(L) LOYALTY POINTS PROGRAM

The Corporation operates a program whereby patrons can earn points based upon their level of play on certain casino games. Points can be redeemed for certain goods and services provided by the casinos. The retail value of these complimentary items is included in gross revenue and then deducted as a promotional allowance to arrive at net revenue.

The future redemption liability is included in accounts payable and accrued liabilities and is based on an assessment of anticipated point redemptions and point value. The Corporation adjusts the estimated liability based on redemption experience and additional points earned and any adjustments are recorded in the results of operations.

(M) FINANCIAL INSTRUMENTS

In accordance with The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 Financial Instruments – Recognition and Measurement, the Corporation has classified all financial instruments into

2. Significant Accounting Policies (continued)

one of the following five categories: held for trading, held to maturity investments, available for sale financial assets, loans and receivables and other financial liabilities. All financial instruments are included on the consolidated balance sheet and are measured at fair value with the exception of loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial instruments are measured at fair value and all gains and losses are included in income in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset or liability is removed from the consolidated balance sheet.

(N) CHANGES IN ACCOUNTING POLICIES

During the year, the Corporation adopted the following CICA Handbook sections:

Section 1601 Consolidated Financial Statements and Section 1602 Non-Controlling Interests establish standards for the accounting and reporting of ownership interests in subsidiaries held by parties other than the parent. The adoption of these standards has had no impact on the Corporation's consolidated financial statements.

3. Accounts Receivable

	2011	2010
Western Canada Lottery Corporation	$ 7,517	$ 5,140
Trade	3,791	3,048
First Nations	467	906
Goods and Services Tax	23	250
Employee computer program	239	256
	$ 12,037	$ 9,600

4. Inventories

	2011	2010
Replacement parts	$ 1,247	$ 1,462
Bingo paper	417	462
Breakopen tickets	511	345
Restaurant	169	148
Store merchandise	302	211
	$ 2,646	$ 2,628

5. Prepaid Expenses

	2011	2010
Maintenance contracts	$ 1,101	$ 1,105
Insurance	455	461
Entertainer and sponsorship deposits	157	109
Rent	131	85
Other	338	347
	$ 2,182	$ 2,107

6. Property and Equipment

	Cost	Accumulated Amortization	Net Book Value
2011			
Land	$ 17,135	$ -	$ 17,135
Furniture and equipment	112,287	89,664	22,623
Gaming equipment	163,663	137,247	26,416
Casino stages	5,972	5,972	-
Buildings and parking lots	162,517	75,767	86,750
Leasehold improvements	1,249	992	257
Capital lease – building	649	412	237
Assets related to First Nations casinos (see note 2(c))	19,317	14,253	5,064
Work in progress	12,241	-	12,241
	$ 495,030	$ 324,307	$ 170,723
2010			
Land	$ 5,798	$ -	$ 5,798
Furniture and equipment	103,853	87,468	16,385
Gaming equipment	164,971	135,462	29,509
Casino stages	5,972	5,972	-
Buildings and parking lots	153,751	70,803	82,948
Leasehold improvements	5,643	5,347	296
Capital lease – building	688	302	386
Assets related to First Nations casinos (see note 2(c))	19,028	11,580	7,448
Work in progress	13,965	-	13,965
	$ 473,669	$ 316,934	$ 156,735

7. Other Assets

The Corporation has entered into an agreement for the right to use 22.28 acres of land for 200 years. The land is being used for parking facilities at the McPhillips Station Casino. The facilities became available for use during the 2004 fiscal year, at which time the Corporation began amortizing the asset over the life of the adjacent casino. The asset is presented net of accumulated amortization of $1,840 (2010 - $1,587) (see note 2(e)).

8. Accounts Payable and Accrued Liabilities

	2011	2010
Trade	$ 35,015	$ 24,467
Vacation	8,556	8,051
Interest	26	822
Jackpot provision	2,481	1,973
Province of Manitoba taxes	357	361
	$ 46,435	$ 35,674

9. Long-Term Debt

	2011	2010
Province of Manitoba, bearing interest at 6.950%, interest only payable semi-annually, with all principal due at maturity on August 30, 2010.	$ -	$ 135,000
Province of Manitoba, bearing interest at 5.050%, repayable in monthly principal installments of $563 plus interest until August 31, 2030.	131,063	-
Province of Manitoba, bearing interest at 5.250%, repayable in quarterly principal installments of $1,071 plus interest until June 30, 2011.	1,071	5,357
Province of Manitoba, bearing interest at 4.625%, repayable in quarterly principal installments of $1,071 plus interest until September 30, 2011.	2,143	6,429
Province of Manitoba, bearing interest at the prevailing Bankers Acceptance Rate plus ¼ of 1%, repayable in quarterly principal payments of $679 plus interest, until May 10, 2012. The interest rate on the debt at March 31, 2011 was 1.549%.	3,393	6,107
Province of Manitoba, bearing interest at 4.050%, repayable in monthly principal installments of $84 plus interest until August 31, 2012.	1,433	2,444
Province of Manitoba, bearing interest at 4.150%, repayable in monthly principal installments of $96 plus interest until July 31, 2013.	2,678	3,826
Province of Manitoba, bearing interest at 2.500%, repayable in monthly principal installments of $12 plus interest until February 26, 2015.	548	688
Province of Manitoba, bearing interest at the prevailing Canadian Dealer Offered Rate plus 0.90%, repayable in quarterly principal payments of $550 plus interest, until August 31, 2015. The interest rate on the debt at March 31, 2011 was 2.199%.	9,900	-
Capital lease obligation to the Province of Manitoba, with a 7.630% implicit interest rate and annual minimum lease payments of $64 until July 13, 2017.	292	332
	152,521	160,183
Less current portion of long-term debt and capital lease obligation	17,221	17,562
	$ 135,300	$ 142,621

9. Long-Term Debt (continued)

Annual payments in future years are as follows:

		Capital Lease	
	Loans	Principal	Interest
2012	$ 17,178	$ 43	$ 21
2013	11,338	46	18
2014	9,473	50	14
2015	9,078	54	10
2016	7,850	58	6
Subsequent years	97,312	41	2
	$ 152,229	$ 292	$ 71

The fair market value of long-term debt at March 31, 2011 is $153,570.

10. Provision for Employee Pension Benefits

The pension expense related to the Corporation's contributions to the Civil Service Superannuation Fund is $3,430 (2010 - $3,590) and is recorded in operating expenditures.

A pension liability of $784 (2010 - $825) has been established for employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund plan. A loss of $41 was experienced in the current year based on the most recently available actuarial report of pension obligations as at December 31, 2009, and is included in the above pension expense.

The pension expense related to the Corporation's contributions to the money purchase plan is $146 (2010 - $162) and is recorded in operating expenditures.

11. Capital Structure

The Corporation's capital is comprised of retained earnings and long-term debt. The Corporation's objectives when managing its capital structure are to continue its ability to meet its financial obligations and to finance growth and capital expenditures. These objectives have remained unchanged over the fiscal years presented.

The Corporation is subject to capital growth restrictions as the result of the requirement to allocate 100% of annual consolidated net income to the Province of Manitoba.

12. Allocations and Payments

(A) WCLC PARTNER EQUALIZATION

The Province of Manitoba is a member in the WCLC. An agreement is in place with the Provinces of Alberta and Saskatchewan where Manitoba Lotteries provides economic benefit equalization specific to salary costs of head office employees resident in Manitoba. The cost to the Corporation for this allocation for the 2011 fiscal year is $3,459 (2010 - $3,325).

(B) PAYMENT TO GOVERNMENT OF CANADA

Effective January 1, 1980 the Government of Canada terminated its involvement in lotteries. In return, the ten provinces are to contribute an annual sum of $24,000, adjusted for inflation, to the Federal Government. The Province of Manitoba's share for the 2011 fiscal year is $2,283 (2010 - $2,333).

(C) GAMING COMMISSION FEES & CROWN LEVY

The Corporation provides funding to the Manitoba Gaming Control Commission (MGCC) through payment of annual registration fees for electronic gaming machines and employees. The Corporation also provides funding to the Crown Corporations Council through the payment of an annual levy. Funding provided to MGCC and Crown Corporations Council in the 2011 fiscal year is $3,116 (2010 - $2,824).

12. Allocations and Payments (continued)

(D) FIRST NATIONS ALLOCATION

First Nations VLT siteholders receive an allocation of VLT revenue to provide sustainable social and economic benefits and opportunities within the siteholders' communities in Manitoba.

(E) MANITOBA JOCKEY CLUB INC. CONTRIBUTION

The Corporation pays the Manitoba Jockey Club Inc. a portion of the revenue generated by the VLTs at Assiniboia Downs as a contribution to support horse racing in the province.

(F) TOURISM CONTRIBUTION

The Corporation provides contributions towards supporting tourism in Manitoba through the VLT program.

(G) RESPONSIBLE GAMING FUNDING

Funding includes amounts paid to the Addictions Foundation of Manitoba and other organizations for their responsible gaming research and programming.

Total investment in responsible gaming initiatives:

	2011	2010
Amounts included in operating expenditures	$ 600	$ 566
Responsible gaming funding	3,634	3,466
	$ 4,234	$ 4,032

(H) CASINO BINGO VOLUNTEER PROGRAM

The Corporation provides over four hundred charitable and community organizations the opportunity to raise funds for their organizations by assisting the Corporation in the bingo events held at its casinos and providing funding to various community groups throughout Manitoba. Payments made to these organizations for the 2011 fiscal year amounted to $3,941 (2010 - $4,048).

13. Commitments and Contingencies

(A) LEASE OBLIGATIONS

The future minimum annual rental payments relating to operating leases are as follows:

2012	$ 1,160
2013	932
2014	529
2015	147
2016	116
Subsequent years	545
	$ 3,429

(B) Incidental to the nature of its business, the Corporation is defending various legal actions and claims that are pending. While the outcome of these claims cannot be determined, management is of the opinion that the appropriate provisions have been made in the accounts, and the ultimate outcome will not have a material adverse effect on the Corporation's financial position.

The Corporation has been named as a party to a lawsuit related to Scratch 'n Win lottery tickets. The matter is ongoing and any liability related to this claim is not determinable at this time.

14. Financial Instruments

The Corporation's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, payable to the Province of Manitoba and long-term debt. The Corporation is exposed to interest rate, liquidity, foreign exchange and credit risks arising from financial assets and liabilities. The Corporation's objectives in managing these risks are to protect from volatility and to minimize exposure from fluctuations in market rates.

INTEREST RATE RISK

Interest rate risk is the risk to the Corporation's income that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk, though risks associated with interest rate fluctuations are mitigated through the use of fixed-rate long-term debt.

LIQUIDITY RISK

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation mitigates this risk through cash and long-term debt management. Trade payables are due within one year and long-term debt is repayable in either quarterly or monthly installments.

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to the Corporation's income that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Corporation mitigates this risk through its contract and purchasing practices.

CREDIT RISK

Credit risk is the risk to the Corporation that a counterparty will fail to perform its obligations or pay amounts due causing a financial loss. The Corporation mitigates this risk through its credit management and collection practices. The Corporation establishes a reasonable allowance for non-collectible amounts which is netted against accounts receivable. The maximum credit risk exposure associated with accounts receivable is the total carrying value and it is management's opinion that the Corporation does not have significant concentration risk.

The status of accounts receivable in relation to when they are due and payable is as follows:

Neither impaired nor past due	$ 11,955
Not impaired and past due as follows:	
Within 30 days	10
31 to 60 days	55
61 to 90 days	4
Over 90 days	13
Allowance for doubtful accounts	-
	$ 12,037

FAIR VALUE

The fair value of the Corporation's financial instruments on initial recognition is the transaction price, which is the value of the consideration given or received.

The Corporation has made the following classifications of its financial instruments:

Cash is classified as held for trading and measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in income. Financial instruments recognized at fair value must be classified in one of the following three fair value hierarchy levels:

Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 – measurement based on inputs other than quoted prices included in level 1 that are observable for the asset or liability.

Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

Accounts receivable are classified as loans and receivables and recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities, payable to the Province of Manitoba and long-term debt are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Unless otherwise stated, the fair value of the Corporation's financial instruments approximates their carrying value.

Financial Instruments recorded at fair values, classified using the fair value hierarchy are as follows:

	Level 1	Level 2	Level 3	Total
Cash	$ 32,012	$ -	$ -	$ 32,012
	$ 32,012	$ -	$ -	$ 32,012

15. Supplemental Cash Flow Information

	2011	2010
Net decrease (increase) in current assets		
Accounts receivable	$ (2,437)	$ 5,906
Inventories	(18)	279
Prepaid expenses	(75)	304
	(2,530)	6,489
Net increase in current liabilities		
Accounts payable and accrued liabilities	10,761	4,521
Net change in non-cash working capital items	$ 8,231	$ 11,010

16. Comparative Figures

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

CONSOLIDATED SCHEDULE OF NET INCOME AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31, 2011 (IN THOUSANDS)

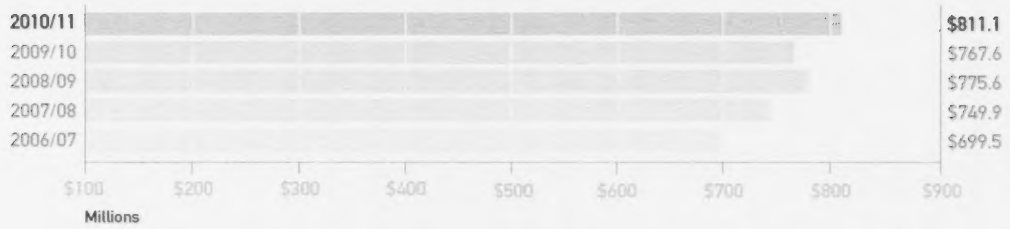
	2011	2010
REVENUE		
Revenue	$ 811,061	$ 767,562
Cost of sales	209,650	212,071
	601,411	555,491
EXPENSES		
Operating expenditures		
Salaries and benefits	91,185	89,302
Maintenance	17,425	15,466
Tourism marketing	9,877	10,659
Property taxes	3,050	4,053
Utilities	2,420	2,474
Supplies and equipment	3,776	3,837
Consultant fees	3,609	2,601
Telecommunications	1,363	1,372
Transportation and vehicles	1,503	1,470
Community support	1,889	1,632
Sundry	4,686	2,521
	140,783	135,387
Amortization	24,651	30,527
Interest expense - long-term	8,435	10,309
Goods and Services Tax	4,749	8,277
	178,618	184,500
INCOME BEFORE ALLOCATIONS AND PAYMENTS	422,793	370,991
ALLOCATIONS AND PAYMENTS	90,692	64,318
NET INCOME AND COMPREHENSIVE INCOME	$ 332,101	$ 306,673

(see accompanying notes to the consolidated financial statements)

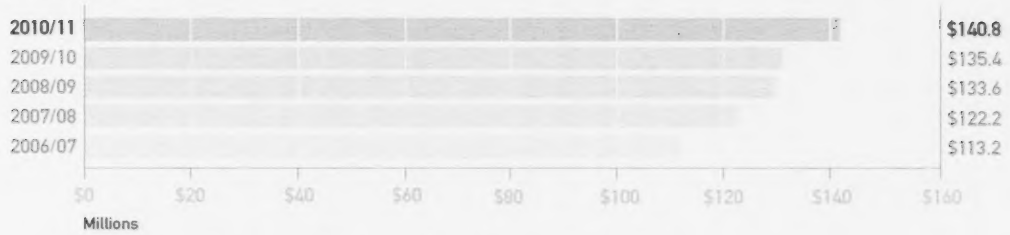
HIGHLIGHTS

Net Income

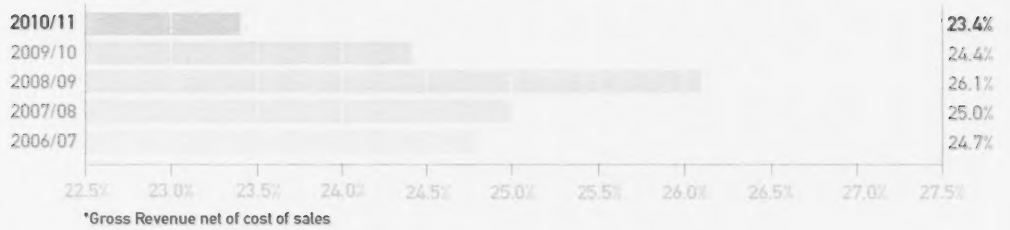
Revenue



Operating Expenses



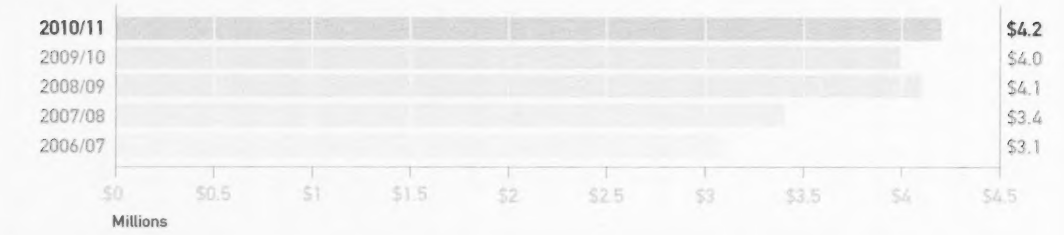
Operating Expense as a Percent of Net Revenue*



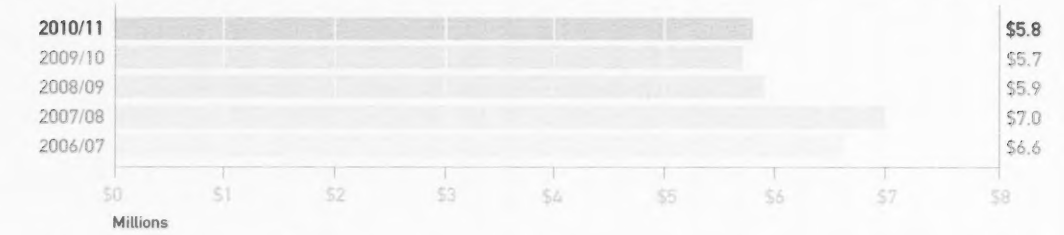
HIGHLIGHTS

Net Income by Product Segment

Responsible Gaming



Community Support CORPORATE SPONSORSHIP AND CHARITABLE/COMMUNITY ORGANIZATION FUNDING



VLT Commissions & Contributions